Supreme Court, U.S.
FILED
JAN 22 2008
OFFICE OF THE CLERK

81

07-959

No.

IN THE
SUPREME COURT OF THE UNITED STATES

COUNTY MATERIALS CORPORATION,
PETITIONER

v.

ALLAN BLOCK CORPORATION, RESPONDENT

PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

GARY A. AHRENS
Counsel of Record
100 East Milwaukee Avenue
Suite 3300
Milwaukee, WI 53202-4108
(414) 271-6560
Attorney for Petitioner

QUESTIONS PRESENTED

1. Has the United States Court of Appeals for the Seventh Circuit properly created a new element of "anti-competitive harm" for the contract defense of illegality?

LIST OF PARTIES

Petitioner County Materials Corporation was the only appellant in the court below. Respondent is Allan Block Corporation, appellee in that court.

LIST PURSUANT TO RULE 29.6

Petitioner is a privately held corporation. No publicly held entity owns 10% of more of its stock.

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OPINIONS BELOW

The opinion of the United States District Court for the Western District of Wisconsin is published at *County Materials Corp. v. Allan Block Corp.*, 431 F. Supp. 2d 937 (W.D. Wis. 2006). The opinion of the United States Court of Appeals for the Seventh Circuit is published at *County Materials Corp. v. Allan Block Corp.*, 502 F.3d 730 (7th Cir. 2007).

JURISDICTION

The judgment of the Court of Appeals was entered September 18, 2007. Petitioner filed a Petition for Rehearing with Suggestions for Rehearing *En Banc* on October 2, 2007, which was denied by the Court of Appeals on October 22, 2007.

This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Article III of the Constitution of the United States and relevant portions of 28 U.S.C. §§ 1332, 1391(a) and 2201(a), are reproduced at A102-A110.

STATEMENT OF THE CASE

A. The Parties

Petitioner, County Materials Corporation ("County"), manufactures and sells landscape block products. Respondent, Allan Block Corporation ("Allan"), holds two patents relating to landscape block products, United States Patent 5,484,236 (the "'236 Patent") and United States Patent 4,909,010 (the "'010 Patent"). Allan does not manufacture products; instead, it directs "customers to local producers who serve as 'point' people for its products." *County Materials Corp. v. Allan Block Corp.*, 431 F. Supp. 2d 937, 941 (W.D. Wis. 2006).

B. The Production Agreement

On or about April 28, 1993, Allan entered into a Production Agreement with County's predecessor in interest, County Concrete Corporation. A54-A55; A67-A92. Under the Production Agreement, Allan licensed to County Concrete Corporation the right to manufacture and sell Allan's landscape block product covered by the '236 and '010 Patents. With Allan's approval, County Concrete Corporation assigned its interest in the Production Agreement to the Petitioner. A22-A23.

One of the conditions in Allan's Production Agreement was a non-compete provision that prohibited County from manufacturing or selling,

directly or indirectly, any other mortarless, stackable concrete block retaining wall product:

> The parties agree that during the term of this agreement, and for a period of eighteen months following the termination of this agreement, Producer will not directly or indirectly engage in the manufacture and/or sale of any other mortarless, stackable, concrete block retaining wall product with the following exceptions: 1) The Versa-lok product line for resale, 2) Manufacture, market and promote the "Wall Block" product currently in production at their facility.

A84-A85. The only exceptions to the non-compete permitted County Materials to continue manufacturing and selling two of its existing products, known as the Versa-lok product line and the Wall Block product. A84-A85.

Allan Block contended that the non-compete applied to the manufacture and sale of any new landscape blocks, whether or not the new landscape block infringed on Allan's '236 Patent or '010 Patent.

Allan Block also maintained that County was prohibited by the non-compete from using the specifications of the '236 Patent to design around the patent to create a new product.

C. County Materials Designs A New Landscape Block That Does Not Infringe The '236 Patent Or The '010 Patent

Allan notified County by letter dated April 27, 2005, that the Production Agreement would be terminated. A59; A95. After the notice, County configured a new landscape block product as a design-around to not infringe Allan's patents. A60-A61.

D. County Seeks A Declaration Of Rights

County filed this lawsuit on November 16, 2005. A56. County sought a declaration that based on Federal Public Policy the non-compete provision in Allan's Production Agreement is not enforceable as to County's manufacture and sale of non-infringing landscape blocks including County's new block. A56. County did not plead patent misuse. A53-A66. Allan did not counterclaim for patent infringement by the new block. A100.

E. The District Court Decision

Although County never used the words patent misuse in its pleadings or briefing for summary

judgment, the District Court dismissed County's claim on the grounds that County had failed to show an essential element of the defense of "patent misuse." A37-A44. The District Court did so even though there was no allegation that County had infringed Allan's patents and no pleading by County alleging patent misuse as a defense to infringement. The District Court applied Federal Circuit authority and concluded that the non-compete was not unenforceable because there was no showing of "overall harm to competition" and no evidence that Allan intended to use patent leverage to enlarge its patent monopoly. A41. The District Court also concluded that that the covenant not to compete was valid under the state law of Minnesota. A44-A50. The District Court did not in any way address illegality based on federal public policy as a defense to the enforcement of a non-compete.

F. The Court of Appeals' Decision

The Court of Appeals affirmed, agreeing to impose an unprecedented requirement to show anticompetitive effect to establish the defense of illegality against enforcement of a patent license that does not involve a patent infringement claim. A6-A12. The conclusion not only directly conflicts with *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1019-21 (7th Cir. 2002) (which held that a party may challenge a patent license as an illegal contract without the need to show any anticompetitive effect), but also is contrary to the statutory limits of patent misuse in 35 U.S.C. § 271(d), and the antitrust gloss

on patent misuse that originated in *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986) and continued in *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997). The Court of Appeals thus requires a showing of competitive harm as a prerequisite to a contract defense of illegality. A6-A12.

REASONS FOR GRANTING THE WRIT

I. The Court of Appeals' Unprecedented Analysis Conflicts with Decisions of This Court.

In an unprecedented decision, the Court of Appeals has added a requirement of anticompetitive harm to the contract defense of illegality. Yet, this Court has never recognized such an additional element. *See Kaiser Steel Corp. v. Mullins*, 455 U.S. 72, 77 (1982) (noting that "our cases leave no doubt that illegal promises will not be enforced in cases controlled by the federal law").

The Court of Appeals has expanded the Federal Circuit's antitrust gloss on patent misuse that originated in *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986) and continued in *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997). The Court of Appeals here applied, as well, the antitrust guidelines for the Licensing of Intellectual Property. A10. This resulted in

imposing a new requirement of anticompetitive harm to the contract defense of illegality. A10.

Although County's claim rested on the defense of contract illegality (A53-A66), the Court of Appeals analyzed County's claim based upon patent misuse as that concept is applied as a defense in a patent infringement case. A6-A12. For example, the Court of Appeals described County's claim as "an anticipatory patent misuse defense" (A2) and that County's "purported patent misuse defense cannot succeed" without a showing that enforcement affected the "broader market." A12.

Yet, County never pled such a defense. A53-A66. Patent misuse as used in 35 U.S.C. § 271(d) is not a contract defense theory, but is a defense to patent infringement. *Scheiber v. Dolby Labs*, 293 F.3d 1014, 1019-20 (7th Cir. 2002). Likewise, the "harm to competition" element created in *Windsurfing* and continued in *Virginia Panel* related to enforcement of a patent through a patent infringement claim, not enforcement of a license without any patent infringement allegation. It is undisputed that Allan never asserted a patent infringement claim against County in this case. A100.

Since County believed it was not infringing any Allan patent – and Allan made no such claim of infringement – County sought a declaration that the non-compete in Allan's patent license was an illegal contract. The non-compete prevented County from

using information freely available in the public domain to develop a new, non-infringing product. Unlike the circumstances in *Windsurfing* or *Virginia Panel,* it was not Allan's patents that potentially prevented County's new non-infringing product, but the non-compete.

County's claim of illegality was well-grounded in the "strong federal policy favoring free competition in ideas which do not merit patent protection." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 168 (1989). Neither Congress nor a state may restrict access to material in the public domain:

> Congress may not... authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available.
>
> From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.

Id. at 146 (citation omitted).

> [F]ree exploitation of ideas will be the

> rule, to which the protection of a federal patent is the exception. Moreover, the ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure. State law protection for techniques and designs whose disclosure has already been induced by market rewards may conflict with the very purpose of the patent laws by decreasing the range of ideas available as the building blocks of further innovation.

Id. at 151. This policy favors designing around patents to create new products. *E.g., Westvaco Corp., v. International Paper Co.*, 991 F.2d 735, 745 (Fed. Cir. 1993); *see also Bretford Mfg., Inc. v. Smith Sys. Mfg. Corp.*, 419 F.3d 576, 579 (7th Cir. 2005) (parties have the "right to reverse engineer and copy products . . . down to the last detail unless a feature of the product is protected by patent, copyright or trademark law").

County's defense of illegality based on this "strong federal policy" shares roots with, but is distinct from, the patent misuse defense to infringement. The Court of Appeals' decision overlooked this distinction. Instead, the Court of Appeals relied on authorities addressing defenses raised in patent infringement cases and, conversely, declined to apply the authorities cited by County

that declared this policy outside the context of patent infringement.[1]

Had the Court of Appeals directly addressed the distinction stated in *Scheiber,* it would have discovered that neither *Windsurfing* nor any of its recent progeny[2] suggest they are applicable to a defense against enforcement of a license not involving a claim of patent infringement. *Windsurfing* based its new formulation of the patent misuse defense to patent infringement on *Blonder-Tongue Labs., Inc.* v. *University of Illinois Foundation*, 402 U.S. 313 (1971). In *Blonder-Tongue,* the Supreme Court reaffirmed the important public policy that patentees are limited to the legitimate scope of their patents.

Blonder-Tongue did not address patent misuse as a defense to patent infringement, but rather, the scope of estoppel. In overruling *Triplett v. Lowell*, 297 U.S. 638 (1936), the *Blonder-Tongue* Court held that the determination of a patent's invalidity in a separate action could be the basis for an estoppel defense. 402 U.S. at 333-34. Notably,

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[1] The Court of Appeals relied on 35 U.S.C. § 271(d), *Windsurfing* and *Virginia Panel* all of which apply to patent infringement claims. The Court of Appeals distinguished *Columbus Auto. Corp. v. Oldberg Mfg. Co.*, 387 F.2d 643 (10th Cir. 1968) and *National Lockwasher Co. v. George K. Garrett Co.*, 137 F.2d 255 (3d Cir. 1943) that did not involve patent infringement claims.

[2] *See U.S. Philips Corp. v. International Trade Comm'n*, 424 F.3d 1179 (Fed. Cir. 2005).

the Court reviewed the general purposes and principles behind the patent law and reiterated a statement from *Mercoid v. Mid-Continent Investment Co.*, 320 U.S. 661, 666 (1944):

> The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. The method by which the monopoly is sought to be extended is immaterial. The patent is a privilege. But it is a privilege which is conditioned by public purpose. It results from invention and is limited to the invention which it defines.

Blonder-Tongue, 402 U.S. at 343-44 (citations omitted). *Blonder-Tongue* thus reaffirmed earlier statements by the Supreme Court barring license provisions that expand the patent monopoly. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 136 (1969) ("[The patentee] may not condition the right to use his patent on the licensee's agreement. . . not to purchase, use, or sell, another article of commerce not within the scope of his patent monopoly"); *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 644 (1947) ("He who uses his patent to obtain protection from

competition in the sale of unpatented materials extends by contract his patent monopoly to articles as respects which the law sanctions neither monopolies nor restraints of trade").

Windsurfing cited *Blonder-Tongue* as the basis for adding a new requirement of anti-competitive effect to the defense of patent misuse. It is difficult to see how *Blonder-Tongue* supports the new element, but in any case, *Windsurfing*'s requirement of anti-competitive effect does not in any way suggest that the principles stated in *Blonder-Tongue*, *Zenith*, and *Transparent Wrap* do not apply to licenses. The enforcement of a license that "enlarges the monopoly of the patent by the expedient of attaching conditions to its use" where the conditions expand the monopoly beyond the patent's scope is barred by public policy (as restated in *Blonder-Tongue*), and nothing in *Windsurfing* or its progeny suggests the opposite.

Scheiber recognized the difference in the two defenses, but did not go further because the challenged contract provision in *Scheiber* was directly controlled by *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). Accordingly, while *Scheiber* noted the overriding policy stated in *Bonito Boats*, it did not need to go further.

The distinction between the two defenses is material. When successfully asserted against a claim of patent infringement, a defense of patent misuse takes away the patentee's enjoyment of an

otherwise valid and infringed patent until the misuse is corrected. *Windsurfing Int'l*, 782 F.2d at 1001. Patent misuse is a defense that only has relevance to an alleged infringer. By contrast, when the defense of illegality is successfully asserted, rather than taking away the use of the patent, the consequence is only that the patentee is confined to the scope of the patent granted by the U.S. Patent Office. *See, e.g., Scheiber*, 293 F.3d at 1022 (discussing consequences of voiding an agreement based on illegality). This defense is only relevant to a party who has not been accused of infringement.

Windsurfing's addition of the element of anti-competitive effect tacitly balanced two equally important federal patent policies: patents should not be infringed and patents should not be expanded. In the context of an illegality defense such as raised by County, there is only one federal patent policy involved – that a patentee may not enlarge the scope of the patent by attaching conditions to its use. *Blonder-Tongue Labs.*, 402 U.S. at 343-44. The only opposing policy is the state law policy that contracts should be enforced. The very nature of the illegality defense based on federal public policy recognizes that this policy of contract enforcement must give way to important federal public policies.

Another important distinction is that patent misuse is a sanction for the patentee's "unclean hands," and is therefore highly fact intensive. Illegality is a doctrine designed to deter certain kinds of contracts – even if they are otherwise wholly

fair between the parties. In *Scheiber*, to distinguish the two defenses, the court cited *Kaiser Steel Corp. v. Mullins*, 455 U.S. 72, 77-83 (1982). *Kaiser Steel* is not a patent case. *Kaiser Steel* explained that the defense of illegality has little or nothing to do with the actual factual circumstances of the contracting parties:

> The court refuses to enforce such a contract and it permits defendant to set up its illegality, not out of any regard for the defendant who sets it up, but only on account of the public interest.

455 U.S. at 77 (citing *McMullen v. Hoffman*, 174 U.S. 639, 669 (1899)). *McMullen* explains that the individual, factual circumstances of the parties are irrelevant to the illegality analysis:

> In all cases where contracts are claimed to be void as against public policy, it matters not that any particular contract is free from any taint of actual fraud, oppression, or corruption. The laws look to the general tendency of such contracts. The vice is in the very nature of the contract, and it is condemned as belonging to a class which the law will not tolerate.

McMullen, 174 U.S. at 648.

The justification for disregarding the parties involved is general deterrence:

> To refuse to grant either party to an illegal contract judicial aid for the enforcement of his alleged rights under it tends strongly towards reducing the number of such transactions to a minimum.

Id. at 669-70. Thus, a successful defense of illegality does not result in a sanction for an individual patentee's bad behavior as in an "unclean hands" or "patent misuse" defense which is directed at changing specific behavior of individual plaintiff patentee. Rather, it is an identification of a type of contract provision that will not be enforced so as to deter all patentees from demanding such a provision.

Allowing the Court of Appeals' decision to stand will have pernicious consequences. Licensees are persons in the best position to exploit public information from patent grants and create new, non-infringing products. They are likely to have already made substantial investments in the industry and are likely to be in the best position to innovate and have the greatest incentive to do so. The Court of Appeals' decision is now the green light for patentees to chill innovation by conditioning the grant of any license on an agreement not to develop new products. The more important the subject of the patent, the more chilling the effect will be.

There was no dispute the non-compete applied to County's new landscape blocks whether or not the new landscape block infringed Allan's patents. There also was no dispute that Allan contended that County was prohibited by the non-compete from using the patent's specification to design around the patent to create a new product. Thus, the "tendency" of the non-compete was to stifle innovation.

Adding an "overall harm to competition" element to the contract illegality defense seriously undermines the policy of innovation. If this change is to occur, it should be done by the Supreme Court. The Court of Appeals decision conflicts with *Scheiber* and *Blonder-Tongue*.

The public's interest is that Allan's non-compete is confined to the scope of Allan's patent monopoly. *Blonder-Tongue Labs.*, 402 U.S. at 343-44; *Meehan v. PPG Indus., Inc.*, 802 F.2d 881, 883 (7th Cir. 1986) ("Even this limited monopoly right has extensive social and economic consequences for the public and therefore the courts are ever watchful of the possibility that patent monopolies will overstep their bounds"). Review is warranted to examine the enforceability of patent licenses that condition the use of a patent on an agreement not to use public information to create new, non-infringing products.

II. The Court of Appeals' Decision Conflicts with Decisions of Other Circuit Courts of Appeals.

The Court of Appeals' decision requiring a showing of an "effect on the broader market" (A8) as a condition for the illegality defense conflicts not only with this Court's jurisprudence, but also conflicts with decisions in other circuit Courts of Appeals, including even other decisions within the Seventh Circuit. For instance, in *Scheiber*, the Seventh Circuit Court of Appeals did not apply the *Windsurfing Int'l* or *Virginia Panel* requirements of market harm to decide whether the contract provision was illegal. Broader market effect is not required when examining the contract defense of illegality. Since the remedy is limited to confining the inventor to the scope of his granted patent, the party asserting the illegality claim functions as a "private attorney general" charged with upholding patent policy. *Scheiber*, 293 F.3d at 1021.

Other Circuit Courts of Appeals have similarly recognized a defense of illegality, but have not also required a showing of anticompetitive harm. *See Total Medical Mgmt., Inc. v. United States*, 104 F.3d 1314, 1319 (Fed. Cir. 1997); *Licznerski v. United States*, 180 F.2d 862, 865 (3d Cir. 1950); *Palmisano v. United States Brewing Co.*, 131 F.2d 272, 273-74 (10th Cir. 1942).

Consequently, review is required in order to clarify the apparent conflict created by the Court of Appeals' injection of the element of anticompetitive harm to the contract defense of illegality.

CONCLUSION

For the reasons stated, certiorari should be granted.

Respectfully Submitted,

GARY A. AHRENS
Counsel of Record
100 East Milwaukee Avenue
Suite 3300
Milwaukee, WI 53202-4108
(414) 271-6560
Attorney for Petitioner

APPENDIX

In the
United States Court of Appeals
for the Seventh Circuit

No. 06-2857

COUNTY MATERIALS CORPORATION,

Plaintiff-Appellant,

v.

ALLAN BLOCK CORPORATION,

Defendant-Appellee.

Appeal from the United States District Court
for the Western District of Wisconsin.
No. 05-C-675-S -- John C. Shabaz, Judge.
ARGUED MARCH 27, 2007-DECIDED SEPTEMBER 18, 2007

Before MANION, KANNE, and WOOD, *Circuit Judges.*

WOOD, Circuit *Judge.* This case is one of those non-patent patent cases that, as we explain more fully below, falls within the jurisdiction of the regional courts of appeals rather than the Federal Circuit. See 28 U.S.C. §§ 1295(a)(1), 1338; *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829-30 (2002) (applying well-pleaded-

complaint rule to § 1338). Two companies, County Materials Corporation and Allan Block Corporation, entered into a production agreement ("the Agreement") giving exclusive rights to County Materials to manufacture Allan Block's patented concrete block; the issue is whether County Line was free to sell an allegedly non-infringing product, despite the presence of a covenant not to compete in the Agreement in which County Line promised not to sell competing products for 18 months if it stopped making Allan Block's product. Following the termination of the Agreement, County Line decided not to wait for the full 18 months before jumping back into the market with a competing product. Allan Block threatened to sue, but County Line beat it to the courthouse with this suit for a declaratory judgment. County Line wanted the district court to declare that the covenant not to compete was unenforceable because it violated federal patent policy, essentially raising an anticipatory patent misuse defense to its planned breach of the Agreement. The district court granted summary judgment to Allan Block, finding no violation of federal patent policy or Minnesota law. We agree with the district court's conclusions and affirm.

I

County Materials is in the business of manufacturing concrete blocks. Allan Block develops, markets, and licenses technology for the manufacturing of concrete blocks; it does not manufacture blocks itself. In April 1993, County Materials's predecessor in interest, County Concrete Corporation, entered into a production agreement with Allan Block. The Agreement granted to County Materials the exclusive right to manufacture Allan Block's patented block

products in northwest Wisconsin. County also was granted the right to sell these products under the Allan Block trademark. Finally, Allan Block agreed to provide County Materials with significant technical, marketing, and strategic support while the Agreement was in effect.

The Agreement included a limited covenant not to compete, which allowed County Materials to make and sell two specific competing block products, without any time restrictions. The non-compete provision also required that for the 18 months following the termination of the Agreement, County Materials could not "directly or indirectly engage in the manufacture and/or sale of any other [competing] ... block."

In 2005, Allan Block notified County Materials that it would be terminating the Agreement. Shortly thereafter, County Materials completed its own design for a new concrete block that would compete directly with the Allan Block products that it had been manufacturing and selling in northwest Wisconsin. As County Materials took steps to begin producing this new block, Allan Block threatened that it would sue to enforce the non-compete provision from the terminated Agreement. County Materials decided to move first, and so it filed this suit alleging that the inclusion of the non-compete provision in the Agreement constituted patent misuse, which made the Agreement void.

II

The district court's jurisdiction over this case was based on diversity. 28 U.S.C. § 1332(a)(1). County Materials is a Wisconsin corporation with its

principal place of business in Wisconsin; Allan Block is a Minnesota corporation with its principal place of business in Minnesota, and County Materials alleges damages exceeding $75,000.

Even though the requirements of § 1332 are therefore satisfied, there is a second potential jurisdictional hurdle in our path. Allan Block, repeating an argument made to this court in advance of oral argument, contends that appellate jurisdiction over this appeal lies with the Federal Circuit and not this court. The Supreme Court has held that the Federal Circuit has appellate jurisdiction

> only [in] those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.

Christianson v. Colt Indus. Operating Corp., 486 U.S. 800, 809 (1988); see also *Holmes Group, supra.*

Looking as we must at the well-pleaded complaint, it is apparent that federal patent law does not create the cause of action here. It is instead a claim about the enforceability of a contract or license agreement. Resolution of this appeal does not "necessarily require[ ] resolution of substantial questions of federal patent law," as Allan Block claims. We faced almost the same arguments in *Scheiber v. Dolby Laboratories, Inc.*, 293 F.3d 1014 (7th Cir. 2002), where we concluded:

> Federal jurisdiction over the suit is based on diversity of citizenship, because a suit to enforce a patent licensing agreement does not arise under federal patent law. *E.g., Jim Arnold Corp. v. Hydrotech Sys., Inc.,* 109 F.3d 1567, 1575 (Fed. Cir. 1997). The presence of a federal defense (here, patent misuse) is irrelevant to jurisdiction. *Christianson v. Colt Industries Operating Corp.,* 486 U.S. 800 (1988).

293 F.3d at 1016. The same is true for a declaratory judgment action, where the roles of plaintiff and defendant are reversed. As we have held before, "[i]n declaratory judgment cases, the well-pleaded complaint rule dictates that jurisdiction is determined by whether federal jurisdiction would exist over the presumed suit by the declaratory judgment defendant." *Ne. Ill.. Reg'l Commuter R.R. Corp. v. Hoey Farine & Downes,* 212 F.3d 1010, 1014 (7th Cir. 2000), quoting *GNB Battery Techs., Inc. v. Gould, Inc.,* 65 F.3d 615, 619 (7th Cir. 1995). The Fifth Circuit case cited by Allan Block is not to the contrary, because that case involved the question whether an attempt to raise claims under a patent licensing agreement that had arisen out of the settlement of a patent infringement suit was barred by *res judicata. NaTec, Inc. v. DeTer Co.,* 28 F.3d 28 (5th Cir. 1994). Declining to reach the merits, the Fifth Circuit held that "[t]he right of the patent holder ... to enforce the settlement agreements and obtain royalties for use of the patent after it expires is a substantial question of federal patent law." *Id.* at 28. This meant that the suit arose under 28 U.S.C. § 1338, and that appellate jurisdiction necessarily lay in

the Federal Circuit, under 28 U.S.C. § 1295. In our case, the district court's jurisdiction over the present case was not based even in part on § 1338. Appellate jurisdiction therefore lies in this court, see 28 U.S.C. §§ 41, 1291, and we are free to proceed to the merits.

III

This court reviews a district court's decision to grant summary judgment *de novo*. *Balderston v. Fairbanks Morse Engine Div. of Coltec Indus.*, 328 F.3d 309, 320 (7th Cir. 2003). The parties appear to agree that the production agreement is a patent license, which is the way that we too would characterize it. County Materials essentially claims that the inclusion of the covenant not to compete in the patent license here was *per se* unlawful patent misuse and the improper result of patent leverage. While at one time this argument might have had traction, in certain circumstances, it is at least disfavored today, if not entirely rejected. Today, the concept of patent misuse is cabined first by statute, 35 U.S.C.. § 271(d), which essentially eliminates from the field of "patent misuse" claims based on tying and refusals to deal, unless the patent owner has market power, and second by case law. As the Federal Circuit explained in *Virginia Panel Corp. v. MAC Panel* Co., 133 F.3d 860 (Fed. Cir. 1997), there are certain practices that court identified as "constituting *per se* patent misuse," including "arrangements in which a patentee effectively extends the term of its patent by requiring post-expiration royalties." *Id.* at 869; see also *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964) (holding that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per* se"). The practices identified in § 271(d),

in contrast, may not be branded "misuse." *Va. Panel Corp.*, 133 F.3d at 869.

If a practice is not *per se* unlawful nor specifically excluded from a misuse analysis by § 271(d)

> a court must determine if that practice is reasonably within the patent grant, *i.e.*, that it relates to subject matter within the scope of the patent claims. If so, the practice does not have the effect of broadening the scope of the patent claims and thus cannot constitute patent misuse. If, on the other hand, the practice has the effect of extending the patentee's statutory rights and does so with an anti-competitive effect, that practice must then be analyzed in accordance with the rule of reason. Under the rule of reason, the finder of fact must decide whether the questioned practice imposes an unreasonable restraint on competition, taking into account a variety of factors, including specific information about the relevant business, its condition before and after the restraint was imposed, and the restraint's history, nature, and effect.

Id. (internal citations and quotation marks omitted).

County Materials is not claiming that Allan Block was trying to extend the term of its patent by requiring post-expiration royalties. It is wrong, therefore, to argue that some form of *per se* analysis applies here. (By the same token, we have no need to

explore further the question whether it makes any economic sense to treat these arrangements so harshly. See *Scheiber,* 293 F.3d at 1020, which questions the economic soundness of *per se* condemnation.) The covenant not to compete in the agreement before us must therefore be assessed under a rule of reason. County Materials argues that this clause is unreasonable because it allows Allan Block to use its patent to exclude competition in the market from unpatented products.

As County Materials recognizes, it is essentially making a leveraging argument. It argues both that "[l]everage is presumed" and that there is a "proper method to conclude whether patent leverage was used." Whatever else one might say about leveraging theory (which as we noted in *Scheiber* has been criticized in academic circles), however, there is no doubt that there is nothing "presumed" about it outside the narrow confines of post-expiration royalties. In *Brulotte,* the Supreme Court held that there are both proper and improper uses of patent leverage. It acknowledged that "[a] patent empowers the owner to exact royalties as high as he can negotiate *with the leverage of that monopoly[,* b]ut to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent." 379 U.S. at 33 (emphasis added). But as both Congress and the Court have come to recognize, it may not be possible to exercise any leverage at all from a patent, if that patent does not confer any market power upon its owner. See *Ill. Tool Works Inc. v. Independent Ink, Inc.,* 547 U.S. 28, 42 (2006) (noting that Congress did not intend the mere existence of a patent to constitute the requisite "market power" for purposes of patent

misuse and coming to the same conclusion for antitrust purposes); see also *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) (holding that it was not against public policy to enforce an agreement providing for deferred royalties on an invention, whether or not a patent was ultimately granted).

The Federal Circuit's decision in *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986), provides helpful guidance in deciding whether a particular use of a patent might amount to "misuse" and thus furnish the defense to a licensing agreement that County Materials is looking for. In *Windsurfing*, the Federal Circuit said that patent misuse does not exist unless the party asserting it can "show that the patentee has impermissibly broadened the 'physical or temporal scope' of the patent grant *with anti-competitive effect.*" 782 F.3d at 1001 (emphasis added). This standard is satisfied by showing some overall harm to competition, and so, contrary to County Materials's contentions, it fully takes into account the fact that patents exist to "spur progress and innovation." The *Windsurfing* standard for patent misuse necessarily considers whether progress and innovation have been stymied and allows courts concretely to answer the vague question whether progress has been slowed.

Most of the cases on which County Materials relies come from an era before the Supreme Court recognized the efficiencies that might flow from vertical restrictions, which is the type of restriction we have when a patent owner (which does not compete in the manufacturing sector) imposes restraints on a manufacturing licensee. See generally *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 127 S. Ct. 2705, 2714 (2007); *Bus. Elecs. Corp. v. Sharp Elecs. Corp.*,

485 U.S. 717, 734-36 (1988); *Cont'l T. V:, Inc. v. GTE Sylvania Inc.,* 433 U.S. 36, 59 n.29 (1977). So, for example, *Columbus Auto. Corp. v. Oldberg Mfg. Co.,* 387 F.2d 643, 644 (10th Cir. 1968), assumed that a clause in a patent license agreement that prohibited the licensee from handling competing products was unlawful. Similarly, the Third Circuit's decision in *National Lockwasher* Co. *v. George K. Garrett* Co., 137 F.2d 255, 256 (3d Cir. 1943), assumed that an exclusive dealing arrangement, under which a patent licensee promised the licensor that it would work exclusively with the licensor's technology, was impermissible. This is not the assumption that would govern today, either in the courts or in the federal enforcement agencies. In the Antitrust Guidelines for the Licensing of Intellectual Property § 5.4 (April 6, 1995), the Department of Justice and the Federal Trade Commission wrote that "[i]n the intellectual property context, exclusive dealing occurs when a license prevents the licensee from licensing, selling, distributing, or using competing technologies. Exclusive dealing arrangements are evaluated under the rule of reason." As support for the latter statement, the Agencies cited *Tampa Elec.* Co. *v. Nashville Coal* Co., 365 U.S. 320 (1961), in which the Supreme Court used the rule of reason to evaluate an exclusive dealing arrangement that did not involve intellectual property.

Anticompetitive effects, in short, are a critical element of any patent misuse case that is evaluated under a rule of reason approach. *Windsurfing* was one of the first cases to recognize this; it required "a factual determination [that] ... reveal[s] that the overall effect of the license *tends to* restrain competition unlawfully in an appropriately defined

relevant market." 782 F.2d at 1001-02 (emphasis added). A plaintiff is not required to show a defendant's subjective intent to obtain some kind of leverage over its patent. We assume, for the sake of argument, that it is also not necessary for a plaintiff to plead a case that would suffice to show that the antitrust laws have been violated. But, at the summary judgment stage, some evidence tending to show an adverse effect in an economically sound relevant market is essential for any claim governed by the rule of reason.

With these principles in mind, we are ready to assess County Materials's case. To begin with, the Agreement between County Materials and Allan Block shows no sign of one-sidedness or abuse of power on Allan Block's part. County Materials received significant benefits, starting with the right to use the patented technology for the manufacture of the concrete blocks, and continuing with the right to use Allan Block's trademark and the right to receive supporting technical, marketing, and strategic services from Allan Block. In return, County Materials had to promise to pay royalties to Allan Block and to devote significant efforts to the exploitation of Allan Block's patent. If County Materials had been free to pick and choose among all potentially competing products on the market, Allan Block may have signed over the rights to use its patent and know-how for little or nothing in return. Allan Block's services alone have considerable value for any company undertaking the manufacture and sale of these products (or so the parties could have concluded), whether or not they are tied to a patented product. Nothing in these facts suggests that Allan Block needed or used any kind of leverage made possible by the patent to secure County

Materials's promise to refrain from working with all but the designated two competing products, or its promise to refrain from using other products for 18 months after the expiration of the Agreement.

In fact, this was not a particularly onerous covenant not to compete. It allowed County Materials to continue to manufacture and sell not one but two competing products, which the district court reasoned would "guarantee plaintiff could always compete with defendant in the landscape block market." In addition, the clause had both temporal and geographical limits. It lasted for only 18 months after the Agreement's termination (a period which no one contends goes beyond the duration of Allan Block's patent) and applied only to County Materials's exclusive production territory, which was a section of Wisconsin. Although the non-compete clause may have hurt *County Materials's* ability to compete as aggressively as it would have liked in the concrete block market in northwest Wisconsin, there does not appear to be any evidence in the record showing that these limited requirements have hurt *competition* for cement blocks in County Materials's former exclusive territory. In the related field of antitrust, the Supreme Court has said that "[i]t is axiomatic that the antitrust laws were passed for the protection of competition, not competitors." *Brooke Group Ltd. v. Brown & Williamson Tobacco Corp.*, 509 U.S. 209, 224 (1993) (internal quotation marks omitted). *Independent Ink, supra,* held that the principles underlying the patent misuse doctrine are closely aligned to those underlying antitrust law. Without a showing that this clause had any effect on the broader market for concrete block (as opposed to an effect only on County Materials), its purported patent misuse defense cannot succeed.

IV

Even if its patent misuse argument fails, County Materials maintains that the covenant not to compete violates general principles of Minnesota law, which applies here. Minnesota courts look to three factors in evaluating this kind of clause: it must (1) protect a legitimate interest of the party in whose favor it is imposed, (2) be reasonable as between the parties, and (3) not be injurious to the public. *Haynes v. Monson,* 224 N.W.2d 482, 484 (Minn. 1974). Minnesota decisions on point do not allocate the burden of proving or disproving these factors, but rather look to the court to weigh the evidence in support of or against each factor.

As for the first factor, we are satisfied that Allan Block had a legitimate interest in the other resources and intangibles that it gave to County Materials as part of the Agreement. "Legitimate interests that may be protected include a company's 'goodwill, trade secrets, and confidential information.'" *Medtronic, Inc. v. Advanced Bionics Corp.,* 630 N.W.2d 438, 456 (Minn. Ct. App. 2001) (internal quotation marks omitted). County Materials claims that Allan Block "admitted it could not even identify any confidential information supplied to [County Materials]." That is not, however, a fair account of what the Allan Block officials said. Allan Block officer Robert Gravier testified that Allan Block "provided a stream of information relating to the technology over a 12-year period of time and encompassing manufacturing, molds, engineering, marketing and-and supporting the sale of the blocks under the license." This suffices to show that goodwill, confidential information, and trade secrets were given

to County Materials. Allan Block employee Timothy Bott testified,

> I made several person[al] trips over to the [County Materials] Eau Claire facility .... There were numerous phone calls over the 12- or 13-year history of us working together, everything from mix design to actual issues, making the product. I was at the Eau Claire facility when they initially produced the first block. I assisted with the molds and other issues, training their staff on the differences between the different products and the configurations of the molds.

Bott also testified specifically as to the engineering support given to County Materials:

> We provide a service that's both formal and informal. The formal service allows for someone to have us prepare preliminary designs, working with the local engineer to assist in the facilitation ... of [County Materials] ... landing a project that requires engineering. We work with the engineers that locally will review and do the final design, to educate them on the subject matter. This product concept and this design concept ... is relatively new, and so *most engineers have little* or *no education relative to this.*

(emphasis added). None of this testimony has been disputed. The record shows that Allan Block had a

legitimate interest in the resources and support that it gave to County Materials during their 12-year relationship.

The second factor is whether the agreement is reasonable as between the parties. Minnesota courts require that non-compete agreements not be greater than necessary to protect the legitimate business interest. *Dynamic Air, Inc. v. Bloch,* 502 N.W.2d 796,799 (Minn. Ct. App. 1993). The *Dynamic* decision requires courts to consider "the nature and character of the employment, the nature and extent of the business, the time for which the restriction is imposed, the territorial extent of the covenant, and other pertinent conditions." *Id.* Although these factors were used in assessing an employee's non-compete clause in *Dynamic,* we find them equally useful in evaluating the non-compete provision at issue here. The provision is well-tailored to the legitimate interests of Allan Block. As part of its agreement, Allan Block provided a significant amount of start-up assistance and ongoing technical and marketing assistance to County Materials. These services presumably cost time and money. Requiring a lag time before County Materials can produce new products that compete with those previously licensed to it by Allan Block allows Allan Block to retain some of the value of its services. The Agreement was structured in a way that would eliminate any incentive on County Materials's part to use Allan Block to get its own concrete block business started and then breach the contract once it had taken advantage of Allan Block's assistance. Further supporting the reasonableness of this restriction is the fact that it extends only to the geographic area in which County Materials sold the Allan Block blocks as part of the Agreement.

Further, when a licensee gets an exclusive patent license, as County Materials did here, it is benefitting from the patentee's property rights more than it would with a non-exclusive license. The licensee reaps the rewards of the patent up to the bounds of its exclusivity. Given this additional benefit, it seems only fair that the licensee can be assigned part of the responsibility of promoting the product in the broader market. Under a clause like this, the licensee has a stake in ensuring the success of the product. If the granting of an exclusive license is not itself a restraint on trade (as it is not, and no one in this case alleges otherwise), then requiring as a condition of that license that the licensee not undermine the value of the bargain is not unreasonable either.

The final factor is that the challenged restraint must not be injurious to the public. Because covenants not to compete are not categorically prohibited by Minnesota law, it must be the case that such a clause would not be deemed injurious to the public unless some particular harm was alleged. Minnesota courts have upheld noncompete provisions in markets where multiple producers of like goods are present, reasoning that the general public is not injured by a non-compete agreement because competition in the relevant market is healthy. *Bess v. Bothman,* 257 N.W.2d 791, 795 (Minn. 1977). County Materials has made no attempt to produce evidence that the relevant geographic area here is subject to a monopoly in landscape bricks made with Allan Block's technology. To the contrary, the fact that the production agreement listed two alternative products as exceptions to the non-compete provision is evidence that good substitutes for Allan Block products existed and were sold within the territory covered by the Agreement. There is no basis to conclude that the

non-compete provision violates Minnesota state law.

V

Finally, County Materials argues that the district court abused its discretion in denying its motion to unseal portions of the record. A district court's decision to seal portions of the record is reviewed for abuse of discretion. *Seattle Times* Co. *v. Rhinehart,* 467 U.S. 20, 36 (1984). "The trial court is in the best position to weigh fairly the competing needs and interests of parties affected by discovery. The unique character of the discovery process requires that the trial court have substantial latitude to fashion protective orders." *Rhinehart,* 467 U.S. at 36. Of course,

> (p]rotective orders entered during discovery in civil cases have ... justification ... and ... limits. Confidentiality while information is being gathered not only protects trade secrets but also promotes disclosure: parties having arguable grounds to resist discovery are more likely to turn over their information if they know that the audience is limited and the court will entertain arguments focused on vital knowledge that a party wants to use later .... Information that is used at trial or otherwise becomes the basis of decision enters the public record .... Secrecy persists only if the court does not use the information to reach a decision on thc merits.

In re Krynicki, 983 F.2d 74, 75 (7th Cir. 1992).

County Materials has not asserted that the district court's decision relied on sealed portions of the record (because it did not), and so it needs some other basis on which to challenge the court's ruling.

We have held that "the public at large pays for the courts and therefore has an interest in what goes on at all stages of a judicial proceeding[but t]hat interest does not always trump the property and privacy interests of the litigants." *Citizens First Nat'l Bank v. Cincinnati Ins.* Co., 178 F.3d 943, 945 (7th Cir. 1999). The public's interest "can be overridden only if the ... [privacy] interests predominate in the particular case, that is, only if there is good cause for sealing a part or the whole of the record in that case." *Id. Citizens* concluded that

> [t]here is no objection to an order that allows the parties to keep their trade secrets (or some other properly demarcated category of legitimately confidential information) out of the public record, provided the judge (1) satisfies himself that the parties know what a trade secret is and are acting in good faith in deciding which parts of the record are trade secrets and (2) makes explicit that either party and any interested member of the public can challenge the secreting of particular documents.

Id. at 946. The district court gave Allan Block a limited ability to keep under seal certain confidential documents, including transcripts of certain Allan Block employees and a few papers. Even though the

district court may have acted too quickly when it summarily rejected County Materials's motion to unseal the documents, at this point in the case it is County Materials's burden to show how this prejudiced it. It has not done so. Rather than pointing to particular documents and explaining why they should have been unsealed, County Materials has argued instead that everything should have been unsealed. In fact, the district court did unseal portions of the sealed documents, including everything on which it relied in its opinion. Without more information from County Materials, we are not in a position to say either that the court abused its discretion by failing to unseal more or that County Materials was prejudiced by the court's actions.

The judgment of the district court is AFFIRMED.

A true Copy:

Teste:

_____

Clerk of the United States Court of Appeals for the Seventh Circuit

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USCA-02-C-0072--9-18-07

United States Court of Appeals
For the Seventh Circuit
Chicago, Illinois 60604

JUDGMENT - WITH ORAL ARGUMENT

Date: September 18, 2007

BEFORE: Honorable DANIEL A. MANION, Circuit Judge
Honorable MICHAEL S. KANNE, Circuit Judge
Honorable DIANE P. WOOD, Circuit Judge

No. 06-2857

COUNTY MATERIALS CORPORATION,
Plaintiff - Appellant

v.

ALLAN BLOCK CORPORATION,
Defendant - Appellee

Appeal from the United States District Court for the Western District of Wisconsin
No. 05 C 675, John C. Shabaz, Judge

The judgment of the District Court is AFFIRMED, with costs, in accordance with the decision of this court entered on this date.

(1061-110393)

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

COUNTY MATERIALS CORPORATION,

Plaintiff,

MEMORANDUM AND ORDER

v. 05-C-675-S

ALLAN BLOCK CORPORATION,

Defendant.

Plaintiff County Materials Corporation commenced this declaratory judgment action against defendant Allan Block Corporation seeking a declaration that the covenant not to compete clause contained in its production agreement is unenforceable. Jurisdiction is based on 28 U.S.C. § 1332(a) (1). The matter is presently before the Court on cross-motions for summary judgment. Also before the Court is defendant's motion to dismiss for lack of subject matter jurisdiction. The following facts are either undisputed or those most favorable to the non-moving party.

BACKGROUND

Plaintiff County Materials Corporation is a Wisconsin corporation with its principal place of business in Marathon, Wisconsin. Plaintiff is engaged in the business of manufacturing concrete block. Defendant Allan Block Corporation is a Minnesota corporation with its principal place of

business in Edina, Minnesota. Defendant is engaged in the business of developing, marketing and licensing technology for the manufacture of concrete block. Defendant does not manufacture concrete block itself rather its strategy is to direct customers to local producers who serve as "point" people for its products.

On or about April 28, 1993 plaintiff's predecessor in interest County Concrete Corporation (hereinafter County) entered into a production agreement (hereinafter agreement) with defendant wherein defendant granted County the exclusive right to manufacture its block products at County's facilities throughout northwest Wisconsin. Additionally, County was granted the right to sell said block products under the ALLAN BLOCK trademark. County subsequently assigned its interest in the agreement to plaintiff. Said agreement stated in relevant part as follows:

... **BACKGROUND :**

3.1 Licensor [defendant] has developed certain technology for the construction of retaining walls based on the use of a proprietary design cement block (the "Block"). Licensor has applied for and been granted patents relating to such technology. Licensor has also developed the technology for certain proprietary molds (the "Molds") to be used in the production of the Block. The Molds,

the granted patent, the foregoing technology, and all other unpatented related know-how, trade secrets, processes, designs, technical data and inventions, whether patentable or not, owned or used by Licensor in connection with the Block are referred to as the "Technology."

3.2 Licensor also owns the following trademarks and service marks (the "Marks") used or to be used in connection with the Technology:

ALLAN BLOCK

... **LICENSE:**

...4.2 This agreement constitutes a license and not an assignment of any rights in the Molds, the Marks, or any of the Technology relating to the Block, all of which remain the property of Licensor.

4.3 So long as Producer is not in default on any of the provisions of this Agreement, Licensor will not give any other person or entity the right to manufacture the Block within the Territory. Nothing contained herein, however, shall be deemed to prohibit any other person or entity

from selling the Block within the Territory.

4.4 Licensor shall provide access to and use of marketing literature, engineering data and other information relating to the distribution and sale of the Block as such information becomes available.

... PROCEDURES AFTER TERMINATION

10.1 In the event of any termination of this Agreement ... Producer shall: (i) immediately cease to use the Technology, including the Molds;
(ii) immediately return all Technology, including specifically the Molds, to Licensor ... and (iii) immediately cease manufacture of the Block .

. . . GENERAL TERMS:

... 16.11 This Agreement shall be interpreted under and governed by the laws of the State of Minnesota.

In addition to the relevant provisions outlined above the agreement contained a covenant not to compete which stated in relevant part as follows:

... NONCOMPETITION

13.1 The parties agree that during the term of this agreement, and for a period of eighteen months following the termination of this agreement, Producer will not directly or indirectly engage in the manufacture and/or sale of any other mortarless, stackable, concrete block retaining wall product, with the following exceptions: 1) The Versa-10k product line for resale, 2) Manufacture, market and promote the "Wall Block" product currently in production at their facility.

13.2 The parties intend that this covenant not to compete shall be construed as a series of separate covenants, one for each county, state and/or geographical area where the Block is being sold.

Evidence contained within the record demonstrates that the parties negotiated the terms of the covenant not to compete. As originally written, said covenant included the language "[t]he Versa-10k product line for resale, but shall not engage in marketing, promotion or general sales of the same [.]" However, the final agreement failed to contain language concerning plaintiff's ability to market, promote or sell its Versa-10k product. Additionally,

Mr. Robert Gravier who serves as defendant's president declared that the parties negotiated the covenant not to compete to render it reasonable and acceptable to both parties. Accordingly, the final covenant not to compete which became part of the agreement was the result of negotiations between the parties. Plaintiff served as defendant's exclusive producer in northwest Wisconsin for a period of twelve years. This twelve year relationship proved lucrative for plaintiff as evidenced by the fact that its sales of ALLAN BLOCK products totaled nearly $1,000,000 in 2005.

Additionally, throughout said twelve year period defendant provided plaintiff with technical and engineering assistance which included sending defendant's vice-president and director of engineering Mr. Timothy Bott to plaintiff's Eau Claire, Wisconsin facility when it initially began production of the block. Mr. Bott assisted with the molds and trained plaintiff's staff about differences between the products and configurations of the molds. Further, throughout the course of the parties' twelve year relationship Mr. Bott made several subsequent visits as well as numerous telephone calls to both plaintiff's Eau Claire and Milwaukee area facility. During said visits and telephone conversations Mr. Bott and plaintiff discussed mix design and issues concerning product manufacturing. Finally, Mr. Gravier testified at his deposition that defendant provided plaintiff with confidential information. Specifically, Mr. Gavier testified defendant provided plaintiff with a "stream of information relating to the technology" which

encompassed aspects of manufacturing, molds, and engineering.

Marketing support was an additional aspect of the parties' agreement. First, defendant provided plaintiff with virtually all of its marketing materials. Additionally, defendant maintained a team specifically dedicated to creating and advancing its branded marketing initiatives through its producers including plaintiff. Finally, defendant maintained a website which directed interested potential customers to the recognized producer within their territory. The record demonstrates that plaintiff benefitted from defendant's marketing initiatives because there is no evidence that any other entity sold block products under the ALLAN BLOCK mark within plaintiff's territory while it remained defendant's exclusive producer for northwest Wisconsin. Accordingly, it follows that for twelve years plaintiff was the only entity associated with the ALLAN BLOCK mark in northwest Wisconsin.

On April 27, 2005 defendant notified plaintiff by letter of its intent to terminate the agreement. At the time of termination, plaintiff was aware that a considerable market for landscape block existed. Accordingly, plaintiff's sales manager of landscape operations Mr. Dale Laurin and plaintiff's production manager Mr. Michael Zuehlke began designing a new standard block which would serve as a comparable landscape product to defendant's ALLAN BLOCK. Plaintiff's intent was to introduce its new block into the market that it previously served with defendant's ALLAN BLOCK products.

In or about May of 2005 plaintiff completed its design work for a new mortarless stackable concrete block retaining wall product (hereinafter new block) which was neither a Versa-10k nor a Wall Block product. Plaintiff's design was subsequently refined. However, once plaintiff completed its initial design work it undertook additional steps to prepare for mass manufacture of its new block. Such steps included: (1) researching whether the new block could be efficiently manufactured for sale, (2) soliciting bids from contractors to manufacture the tooling necessary to complete molds which would be used to mass produce the block, (3) constructing the standard mold for the new block; and (4) producing a prototype of the new block. On November 9, 2005 defendant sent plaintiff a letter which stated in relevant part as follows:

> ... On May 10th we sent a letter to you with a recommendation that we conclude our business partnership in an amicable and cooperative fashion. Part of our list of action items asked for a full accounting of the molds and mold parts and other "Technology" specifically related to Allan Block ... To date we have not received any indication that you intend to comply or cooperate.
>
> To reiterate, Section 10.1 clearly states that "In the event of any

> termination of this Agreement, ... Producer shall: (i) immediately cease to use the Technology, including the molds; (ii) immediately return all Technology, including specifically the Molds, ... and (iii) immediately cease manufacture of the block." Clearly you are in violation of these requirements.
>
> ... If you don't contact us and indicate your willingness to cooperate, we will place the matter in the hands of our attorney and pursue the resolution through the courts.

On November 16, 2005 plaintiff filed its complaint in this action. Additionally, plaintiff continued to prepare for the manufacture of its new block. In December of 2005 plaintiff's prototype block failed Mr. Laurin's visual inspection. Accordingly, Mr. Laurin rejected it and he made alterations to the new block which was now entitled Victory Block. Mr. Laurin declared that such modifications were necessary to improve the marketability of Victory Block. A final prototype for Victory Block was complete in January of 2006 and materials for its manufacture were available in March of 2006. Accordingly, plaintiff began selling Victory Block in April of 2006.

Plaintiff asserts the agreement constituted a patent license because without such a license plaintiff could not have lawfully manufactured or sold defendant's patented block product. Accordingly, plaintiff asserts the covenant not to compete contained within the license agreement is unenforceable because a patentee cannot attach a condition to a license that enlarges its patent monopoly to prevent competition. Additionally, plaintiff asserts the covenant not to compete: (1) fails to serve a proper purpose, (2) is not reasonable because it provides defendant with an unfair advantage; and (3) is not reasonable because it prevents the use of information located in the public domain from being used to design a new product for the marketplace which has a deleterious effect on the interests of the general public. Accordingly, plaintiff argues it is entitled to summary judgment declaring that the covenant not to compete contained within its production agreement is unenforceable.

Defendant asserts plaintiff failed to establish that litigation over the covenant not to compete was imminent when it filed its complaint.

Additionally, defendant asserts plaintiff failed to demonstrate that it possessed the ability to immediately produce its competing Victory Block when it filed its complaint. Accordingly, defendant argues no actual controversy existed which necessitates dismissal of the action for lack of subject matter jurisdiction. Additionally, defendant asserts the agreement did not constitute a patent license rather it was a production agreement which granted

plaintiff the right to produce and sell defendant's products under its trademarks. Accordingly, defendant asserts the covenant not to compete cannot serve as an improper attempt to expand its patent rights. Further, defendant asserts the covenant not to compete is valid under state law because it: (1) is for a proper purpose, (2) is reasonable between the parties; and (3) is not injurious to the public. Accordingly, defendant argues it is entitled to summary judgment declaring the covenant not to compete enforceable as a matter of law.

A. Subject matter jurisdiction

The purposes of declaratory judgments are to "clarify[] and settl[e] the legal relations at issue" and to "terminate and afford relief from the uncertainty, insecurity, and controversy giving rise to the proceeding." Tempco Elec. Heater Corp. v. Omega Enq'q., Inc., 819 F.2d 746, 749 (7th Cir. 1987) (*quoting* Borchard, Declaratory Judgments 299 (2d ed. 1941). Accordingly, declaratory judgment actions serve an important role because they permit prompt settlement of actual controversies and establish the legal rights and obligations that will govern the parties' relationship in the future. Hyatt Int'l. Corp. v. Coco, 302 F.3d 707, 711 (7th Cir. 2002) (citing Edwin Borchard, Declaratory Judgments 107 (1934)). However, under the Declaratory Judgment Act, 28 D.S.C. § 2201, an actual controversy must exist for a court to render a declaratory judgment. Trippe Mfg. Co. v. Am. Power Conversion Corp., 46 F.3d 624, 627 (7th Cir. 1995) (citations and internal quotation marks omitted). To determine whether an

actual controversy exists "the question in each case is whether the facts alleged, under all circumstances, show that there is a controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant issuance of a declaratory judgment." Id. (*quoting* Md. Cas. Co. v. Pac. Coal & Oil Co., 312 61 S.Ct. 510, 512, 85 L.Ed. 826 (1941)). Accordingly, essentially two related but distinct fact situations are contemplated in declaratory judgment actions: (I) the controversy has ripened to a point where one of the parties could invoke a coercive remedy such as a suit for damages or an injunction but has not done so; and (2) the controversy is real and immediate. However, it is not ripened to such a point and it would be unfair or inefficient to require the parties to wait for a decision. Tempco Elec. Heater Corp., at 749. This action is of the second type.

Plaintiff contends defendant's November 9, 2005 letter threatened suit on the contract at issue. Accordingly, plaintiff argues defendant's threats alone were sufficient to establish the factual showing necessary to meet the real and immediate possibility of litigation requirement. However, decisions concerning declaratory judgments advise that the threat of suit is not by itself sufficient for an invocation of the federal power to issue a declaratory judgment. Hyatt Int'l. Corp., at 712. Additionally, the language of defendant's November 9, 2005 letter clearly demonstrates that the covenant not to compete was not at issue for defendant at such time rather section 10.1 and the return of its technology was defendant's concern.

Accordingly, plaintiff cannot rely on the threat of suit as its basis for filing its declaratory judgment action.

However, a declaratory judgment action is proper when a declaration of rights is a bona fide necessity for the natural defendant/declaratory judgment plaintiff to carryon with its business. Id. Additionally, a plaintiff's interest is sufficiently real where "he alleges that he is actively preparing to produce the article in question ... [b]y making active preparations [,] he has shown that he has more than a mere speculative interest ... [rather] [h]is interest is direct, real, and immediate." G. Heileman Brewing Co., Inc. v. Anheuser-Busch, Inc., 873 F. 2d 985, 990-991 (7th Cir. 1989) (citing 6A J. Moore, Moore's Federal Practice ¶ 57.20, at 57-217)).

Paragraph twenty-one of plaintiff's amended complaint alleges: "[o]n November 16, 200[5], [plaintiff] intended to, and was in a position to, have its new standard block ready for sale by mid-December." Additionally, Mr. Laurin declared that in or about May of 2005 plaintiff completed its design work for the new block and it: (1) researched whether the new block could be efficiently manufactured for sale, (2) solicited bids from contractors to manufacture the tooling necessary to complete molds which would be used to mass produce the block, (3) constructed the standard mold for the new block; and (4) produced a prototype of the new block. While plaintiff did not begin selling and installing its Victory Block until April of 2006 the facts demonstrate that its interests at the time it

filed its complaint were not merely speculative. Accordingly, although the facts in existence at the time plaintiff filed its complaint may not have presented a fully ripe dispute such circumstances presented a sufficiently real and immediate controversy in which it would have been unfair or inefficient to require the parties to wait for a decision. See Id. at 991 (*citing* Tempco Elec. Corp., at 749). Defendant's motion to dismiss for lack of subject matter jurisdiction is denied and the Court will proceed to decide the parties' cross-motions for summary judgment.

Summary judgment is appropriate where the "pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c).

A fact is material only if it might affect the outcome of the suit under the governing law. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S.Ct. 2505, 2510, 91 L.Ed.2d 202 (1986). Disputes over unnecessary or irrelevant facts will not preclude summary judgment. Id. Further, a factual issue is genuine only if the evidence is such that a reasonable fact finder could return a verdict for the non-moving party. Id. A court's role in summary judgment is not to "weigh the evidence and determine the truth of the matter but to determine whether there is a genuine issue for trial." Id. at 249, 106 S.Ct. at 2511.

To determine whether there is a genuine issue of material fact for trial courts construe all facts in the light most favorable to the non-moving party. Heft v. Moore, 351 F.3d 278, 282 (7th Cir. 2003) (citation omitted). Additionally, a court draws all reasonable inferences in favor of that party. Id. However, the non-movant must set forth "specific facts showing that there is a genuine issue for trial" which requires more than just speculation or conclusory statements." Id. at 283 (citations omitted).

As a preliminary matter, the Court will address all non-dispositive motions filed by plaintiff. First, plaintiff moved the Court to reconsider or clarify its March 29, 2006 order granting defendant's motion to strike evidence and argument concerning the existence or nonexistence of patent infringement by plaintiff's Victory Block. The Court finds such evidence and argument is not relevant to its analysis of the issues involved in this action. Accordingly, the Court denies plaintiff's motion.

Additionally, plaintiff moved the Court to exclude portions of Mr. Bott and Mr. Gravier's initial and supplemental declarations from consideration on summary judgment. Having reviewed such challenged portions the Court finds no merit in plaintiff's motions. The Court considers such paragraphs in so far as they are made on personal knowledge, set forth such facts as would be admissible in evidence, and show affirmatively that the declarant is competent to testify to the matters stated therein. Fed. R. Civ. P. 56 (e).

Further, plaintiff moved the Court to strike matters from defendant's reply brief which it filed in support of its motion for summary judgment because it asserts defendant raises new issues and arguments for the first time in said brief. It is improper to raise new matters in reply. *See* Marie O. v. Edgar, 131 F.3d 610, 614 n. 7 (7th Cir. 1997). However, having reviewed defendant's reply brief the Court finds it did not improperly raise new issues. For example, plaintiff asserts defendant's reply contains a new argument concerning patent misuse. Patent Misuse has been at issue throughout the course of these proceedings. Plaintiff itself relies on the defense on patent misuse (although it fails to specifically title it as such) throughout its summary judgment motion as well as in its response to defendant's motion for summary judgment. *See* plaintiff's brief in response to defendant's motion for summary judgment page seven "the legal standard for evaluating a non-compete in a patent license is whether it extends the legitimate scope of [defendant's] patent monopoly." Such argument by definition involves patent misuse. Accordingly, defendant was entitled to respond and plaintiff's motion is denied.

Finally, plaintiff moved the Court for an order: (1) removing all confidential designations from transcripts of deposition testimony given by Mr. Bott, Mr. Gravier and Mr. Chad Julius; and (2) unsealing all transcripts and papers filed under seal on the basis of those designations which includes docket numbers 55, 57, 58, 61, 65 and 67. Plaintiff's

motion is one of form over substance. There is a protective order in place for this action which gave defendant the right to designate such information and testimony confidential. Accordingly, plaintiff's motion is denied. With the non-dispositive motions decided the Court will now proceed to address the parties' dispositive cross-motions for summary judgment.

A. Patent license and patent misuse

Plaintiff asserts the agreement constituted a patent license because without such a license it could not have lawfully manufactured or sold defendant's patented block product. Defendant asserts the agreement did not constitute a patent license rather it was a production agreement which granted plaintiff the right to produce and sell defendant's products under its trademark.

A patent license exists when either language used by the patent owner or conduct on the part of the patent owner infers that it consents to use of the patent. De Forest Radio Tel. & Tel. Co. v. United States, 273 U.S. 236, 241, 47 S.Ct. 366, 367, 71 L.Ed. 625 (1927). Consent can be provided to either: (1) make or use items subject to the patent, or (2) sell items subject to the patent. *See* Id. However, a formal granting of a license is unnecessary for one to be in effect. rd. Language used by defendant in the agreement demonstrates that it gave plaintiff consent to use its patent to manufacture and sell its ALLAN BLOCK product. Without such consent plaintiff could not have lawfully manufactured the

ALLAN BLOCK product. Accordingly, said agreement in part constitutes a patent license.

Defendant granted plaintiff the right to use its technology in connection with the manufacture of ALLAN BLOCK at its facilities in northwest Wisconsin. Language contained within the agreement concerning such technology stated in relevant part as follows:

> ... **BACKGROUND:**
>
> 3.1 Licensor [defendant] has developed certain technology for the construction of retaining walls based on the use of a proprietary design cement block (the "Block"). Licensor has applied for and been granted patents relating to such technology. Licensor has also developed the technology for certain proprietary molds (the "Molds") to be used in the production of the Block. The Molds, the granted patent, the foregoing technology, and all other unpatented related know-how, trade secrets, processes, designs, technical data and inventions, whether patentable or not, owned or used by Licensor in connection with the Block are referred to as the "Technology."

Accordingly, part of defendant's "Technology" that

was utilized by plaintiff included its granted patent. Said "Technology" was licensed to plaintiff as evidenced by section 4.2 of the agreement. Section 4.2 stated as follows:

> 4.2 This agreement constitutes a license and not an assignment of any rights in the Molds, the Marks, or any of the Technology relating to the Block, all of which remain the property of Licensor.

A patent license whether express or implied serves as a contract which is governed by ordinary principles of state contract law. State Contracting & Eng'g. Corp. v. State of Fla., 258 F.3d 1329, 1339 (Fed. Cir. 2001), *reh'g. and reh'g. en bane denied*, (Sept. 6, 2001) (citations and internal quotation marks omitted). Under Wisconsin contract law principles terms used in a contract are to be given their plain or ordinary meaning if such words are clear and unambiguous. Riegleman v. Krieg, 2004 WI App 85, ¶ 20, 271 Wis.2d 798, 808, 679 N.W.2d 857, 863 (Ct. App. 2004), *petition for review denied*, (June 8, 2004) (citation omitted). The language of section 4.2 is clear and unambiguous and must be given its plain and ordinary meaning. According to said section, the agreement constituted a license to use the Molds, the Marks and the Technology relating to the Block which included among other things defendant's granted patent. Accordingly, the clear and unambiguous language used by defendant demonstrates that the agreement in part constituted a patent license.

However, it does not necessarily follow that defendant engaged in patent misuse simply because the agreement contained a patent license. Plaintiff contends defendant conditioned the license on a covenant not to compete which prohibited it from manufacturing and selling competing products. Accordingly, plaintiff argues defendant misused its patent by enlarging its monopoly to prevent competition. Defendant asserts it did not misuse its patent because the covenant not to compete was not negotiated with the leverage of its patent. A patentee has the exclusive right to manufacture, use and sell its invention and at the heart of its legal monopoly is the right to invoke the State's power to prevent others from utilizing its discovery without its consent. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135, 89 S.Ct. 1562, 1583, 23 L.Ed.2d 129 (1969) (citations omitted). Additionally, the law recognizes that a patent owner may license others to practice its invention. Id. However, a patent owner cannot attach a condition to its license that enlarges the scope of its patent monopoly. Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 456, 60 S.Ct. 618, 625, 84 L.Ed. 852 (1940). Such an attempt to impermissibly broaden the scope of a patent grant constitutes patent misuse. Windsurfing Int'l., Inc. v. AMF, Inc., 782 F.2d 995, 1001 (Fed. Cir. 1986) (citations omitted), *cert. denied*, 477 U.S. 905, 106 S.Ct. 3275, 91 L.Ed.2d 565 (1986).

Patent misuse typically occurs when a patentee attempts to employ the leverage of its

patent to: (1) condition its license so as to tie to the use of the patented device or process the use of other devices, processes or materials which lie outside of the patent monopoly, Ethyl Gasoline Corp., at 456, 60 S.Ct. at 625 (citations omitted), (2) collect royalties beyond the expiration date of the patent, Brulotte v. Thys Co., 379 U.S. 29, 32, 85 S.Ct. 176,179,13 L.Ed.2d 99 (1964), *reh'g. denied,* 379 U.S. 985, 85 S.Ct. 638, 13 L.Ed.2d 579 (1965), (3) require a licensee to pay royalties on products that fail to use the teaching of a patent, Zenith Radio Corp., at 136, 89 S.Ct. at 1583; and (4) engage in price fixing, U.S. Gypsum Co. v. Nat'l. Gypsum Co., 352 U.S. 457, 472, 77 S.Ct. 490, 498, 1 L.Ed.2d 465 (1957), *reh'g. denied, 353* U.S. 932, 77 S.Ct. 716 (1957).

Additionally, provisions contained within a patent license that require a party to refrain from dealing in products which compete with the patented product have been held to constitute patent misuse per se. *See* Nat' 1. Lockwasher Co. v. George K. Garrett Co., 137 F.2d 255 (3rd Cir. 1943); Krampe v. Ideal Indus., Inc., 347 F.Supp. 1384 (N.D.Ill. 1972).

However, presently rulings of the Federal Circuit are controlling in matters of patent law. 28 U.S.C. § 1295(a) (1). As a prerequisite to establishing patent misuse the Federal Circuit requires a factual determination of overall harm to competition. Windsurfing Int'l., Inc., at 1001-1002. Specifically, said requirement applies to licensing agreement provisions not previously held to be per se anti-competitive by the Supreme Court. Id. at 1001. In

announcing said rule the Federal Circuit noted that "[r]ecent economic analysis questions the rationale behind holding any licensing practice as per se anticompetitive." Id. at 1002 n. 9 (*citing* USM Corp. v. SPS Tech., Inc., 694 F.2d 505, 510514 (7th Cir. 1982), *cert. denied*, 462 U.S. 107, 103 S.Ct. 2455, 77 L.Ed.2d 1334 (1983). Plaintiff failed to cite and this Court failed to locate any Supreme Court decision which holds provisions of this type per se anti-competitive. Accordingly, a finding of overall harm to competition is a necessary predicate to establishing patent misuse.

By definition a covenant not to compete imposes a restraint on trade. However, evidence contained within the record fails to demonstrate that the effect of the covenant not to compete at issue is such that it tends to unlawfully restrain competition. Accordingly, defendant did not engage in patent misuse by including the covenant not to compete in the agreement. The covenant not-to- compete at issue states as follows:

> **... NONCOMPETITION**
>
> 13.1 The parties agree that during the term of this agreement, and for a period of eighteen months following the termination of this agreement, Producer will not directly or indirectly engage in the manufacture and/or sale of any other mortarless, stackable, concrete block retaining wall

product, with the following exceptions: 1) The Versa-10k product line for resale, 2) Manufacture, market and promote the "Wall Block" product currently in production at their facility.

13.2 The parties intend that this covenant not to compete shall be construed as a series of separate covenants, one for each county, state and/or geographical area where the Block is being sold.

Plaintiff by the very terms of the covenant not to compete could continue to manufacture and sell its Versa-10k and "Wall Block" products both while the agreement was in effect and upon its termination which indicates that precautions were taken to guarantee plaintiff could always compete with defendant in the landscape block market. Additionally, the parties negotiated the terms of the covenant not to compete to render it reasonable and acceptable to both parties which demonstrates that defendant was not attempting to use the leverage of its patent to engage in anti-competitive measures. Accordingly, defendant did not attach the covenant not to compete to its license agreement to impermissibly enlarge the scope of its patent monopoly. Because patent misuse did not occur interpreting the validity of the covenant not to compete under state contractual law does not "stand [] as an obstacle to the accomplishment and

execution of the full purposes and objectives of Congress" in the area of patent law. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 479-480, 94 S.Ct. 1879, 1885, 40 L.Ed.2d 315 (1974). Accordingly, the validity and enforceability of the covenant not to compete will be decided by applying principles of state contractual law.

B. Validity/Invalidity of covenant not to compete under state law

As an initial matter, the Court must determine which State law governs this action. The agreement contains a choice of law provision which states as follows:

> ... **GENERAL TERMS:**
>
> ... 16.11 This Agreement shall be interpreted under and governed by the laws of the State of Minnesota.

However, plaintiff asserts Wisconsin law applies. Plaintiff chose Wisconsin as the forum for this declaratory judgment action. Accordingly, Wisconsin's conflicts of law rules apply. Sonoco Bldgs., Inc., Div. of Sonoco Prods. Co. v. Am. Home Assurance Co., 877 F.2d 1350, 1352 (7th Cir. 1989) (citations omitted). Under Wisconsin law parties to a contract may expressly agree that the law of a particular jurisdiction will control their contractual relationship. *See* Jefferis v. Kanawha Fuel Co., 182

Wis. 203, 196 N.W. 238 (1923). However, parties cannot be permitted to so agree at the expense of important public policies of a state whose law would be applicable if the parties choice of law provision were disregarded. Bush v. Nat'l. School Studios, Inc., 139 Wis.2d 635, 642, 407 N.W.2d 883, 886 (1987).

Plaintiff asserts because the agreement applies to Wisconsin activities Wisconsin has a strong public policy interest in applying its law over contracting parties' choice of foreign law. Plaintiff cites Bush, at 643; Beilfuss v. Huffy Corp., 274 Wis.2d 500, 507-508 (Ct. App. 2004) as support. Both cases stand for the proposition that statutes which make a particular contract provision unenforceable "e.g., laws prohibiting covenants not to compete" are likely to embody an important state public policy interest sufficient to warrant overriding a contractual choice of law stipulation. *See* Bush, at 643; Beilfuss, 2004 WI App 118, ¶ 13, 274 Wis.2d at 508, 685 N.W.2d 373, 377.

Wisconsin possesses a law that invalidates covenants not to compete in certain situations. Said law is Wis. Stat. § 103.465. Accordingly, if Wis. Stat. § 103.465 applies to this action public policy concerns would mandate overriding the parties' contractual choice of law stipulation. Wis. Stat. § 103.465 states in relevant part as follows:

> 103.465 Restrictive covenants in employment contracts
>
> A covenant by an assistant, servant

> or agent not to compete with his or her employer or principal during the term of the employment or agency, or after the termination of that employment or agency ... is lawful and enforceable only if the restrictions imposed are reasonably necessary for the protection of the employer or principal.

Wis. Stat. § 103.465 does not control this action because the covenant not to compete at issue was not included as part of an employment contract. Additionally, plaintiff did not serve as an assistant, servant or agent of defendant. Accordingly, because plaintiff failed to cite any other public policy ground which would warrant overriding the choice of law provision the Court will honor the parties' express agreement and interpret the covenant not to compete under Minnesota law.

A covenant not to compete is valid where said restraint: (1) is for the protection of a legitimate interest of the party in whose favor it is imposed, (2) is reasonable as between the parties; and (3) is not injurious to the public. Haynes v. Monson, 301 Minn. 327, 330, 224 N.W.2d 482, 483 (1974) (citations omitted). Additionally, covenants with rather specific geographic and economic limitations have been enforced. Id. at 330, 224 N.W.2d at 484 (citing 87 A.L.R. 329). However, covenants not to compete should be strictly construed because they constitute partial restraints of trade. *See* Bennett v. Storz

Broadcasting Co., 270 Minn. 525, 533, 134 N.W.2d 892, 898 (1965) (citation omitted).

1. Legitimate interests of defendant

For a period of twelve years plaintiff was granted the right to use the ALLAN BLOCK trademark. Defendant asserts this right provided plaintiff an opportunity to trade on the established goodwill and customer association of defendant and its products. Additionally, defendant asserts it provided plaintiff an opportunity to "build up a customer base." Accordingly, defendant argues the covenant not to compete is necessary to protect its legitimate business interest because it prevents plaintiff from unfairly exploiting the entire business package defendant provided for twelve years. Plaintiff asserts the covenant not to compete fails to serve a proper purpose because the agreement was not exclusive and defendant could continue to compete with plaintiff in northwest Wisconsin throughout the twelve year term of the agreement. Accordingly, defendant asserts exclusive brand-name linkage does not exist in this action.

Restrictive covenants are enforced to the extent reasonably necessary to protect legitimate business interests. Medtronic, Inc. v. Advanced Bionics Corp., 630 N.W.2d 438, 456 (Minn. Ct. App. 2001) (citation omitted). Legitimate interests that may be protected include a company's "goodwill, trade secrets, and confidential information." Id. Such legitimate interests exist in this action.

Plaintiff used defendant's ALLAN BLOCK trademark for twelve years while it served as its exclusive producer in northwest Wisconsin. Additionally, evidence contained within the record demonstrates that while the agreement was in effect defendant was the only producer who sold ALLAN BLOCK products in northwest Wisconsin. Accordingly, plaintiff benefitted from defendant's name recognition and goodwill because by its own account its sales of ALLAN BLOCK products totaled nearly $1,000,000 in 2005 which demonstrates that plaintiff built a significant ALLAN BLOCK client base during the twelve year term of the agreement. Further, throughout the course of the parties' relationship defendant provided plaintiff with engineering and technical assistance, marketing support and a "stream of information relating to the technology" which Mr. Gravier testified included confidential information. Accordingly, defendant has a legitimate business interest to protect and prong one of the Haynes test is satisfied.

2. Reasonable as between the parties

Defendant asserts the covenant not to compete is reasonable because it: (1) has a reasonable temporal limit, (2) has a reasonable geographic limit; and (3) was negotiated in good faith. Plaintiff asserts the temporal and geographic limitations of the covenant not to compete are not reasonable because the agreement was never exclusive.

For a covenant not to compete to be reasonable it must not impose any greater restrictions than are necessary to protect a legitimate business interest. *See* Dynamic Air, Inc. v. Bloch, 502 N.W.2d 796, 799 (Minn. Ct. App. 25 1993) (citation omitted). Considerations such as: (1) the nature and extent of the business, (2) the time for which the restriction is imposed; and (3) the territorial extent of the covenant are factors used to determine whether a covenant not to compete is reasonable. Id. The covenant not to compete at issue is reasonable as between the parties.

Plaintiff served as defendant's exclusive producer in northwest Wisconsin for twelve years. During said twelve year period defendant provided plaintiff with: (1) its engineering and marketing support, (2) its Technology including specifically its molds; and (3) the right to sell its products under the ALLAN BLOCK trademark. Upon termination of the agreement defendant needed to invest its time as well as its effort to develop another producer in the northwest Wisconsin territory. Accordingly, considering the extent to which the parties businesses were intertwined for such a considerable period of time an eighteen month covenant not to compete is reasonable. Additionally, the covenant not to compete only extends to the geographic area where plaintiff sold ALLAN BLOCK. Such a territorial limitation is reasonable considering the exclusivity of the agreement because without such a restriction plaintiff could unfairly exploit defendant's ALLAN BLOCK customer base. Accordingly, prong two of the Haynes test is

satisfied.

3. Injurious to the public

Defendant asserts the covenant not to compete is not injurious to the public because production of landscape block is open to anyone except for plaintiff who is only temporarily excluded. Plaintiff asserts the covenant not to compete is injurious to the public because the agreement is a patent license and defendant is attempting to prohibit plaintiff from using information in the public domain to design a new product.

Where multiple producers of like goods are present within a territory the general public is not injured because it is not subject to a monopoly or other injury. *See* Bess v. Bothman, 257 N.W.2d 791, 795 (1977). Plaintiff failed to present any evidence which demonstrates that the general public in northwest Wisconsin is subject to a landscape block monopoly. Accordingly, the covenant not to compete is not injurious to the public and the third and final prong of the Haynes test is satisfied. Because all three prongs of the Haynes test are satisfied it necessarily follows that the covenant not to compete at issue in this action is valid and enforceable.

ORDER

IT IS ORDERED that plaintiff's motion for summary judgment is DENIED.

IT IS FURTHER ORDERED that defendant's

motion to dismiss for lack of subject matter jurisdiction is DENIED.

IT IS FURTHER ORDERED that defendant's motion for summary judgment is GRANTED.

IT IS FURTHER ORDERED that judgment is entered in favor of defendant against plaintiff dismissing the action and all claims contained therein with prejudice and costs.

Entered this 12th
day of May, 2006.

BY THE COURT:

/s/

JOHN C. SHABAZ

District Judge

United States Court of Appeals
For the Seventh Circuit
Chicago, Illinois 60604
October 22, 2007

Before
Hon. DANIEL A. MANION, Circuit Judge
Hon. MICHAEL S. KANNE, Circuit Judge
Hon. DIANE P. WOOD, Circuit Judge
No. 06-2857

COUNTY MATERIALS CORPORATION,

Appeal from the United States District Court for the Western District of Wisconsin

Plaintiff-Appellant,

v. No. 05 C 675

ALLAN BLOCK CORPORATION,

John C. Shabaz, *Judge*

Defendant-Appellee.

ORDER

Plaintiff-Appellants filed a petition for rehearing and rehearing en banc on October 2, 2007. No judge in regular active service has requested a vote on the petition for rehearing en banc, and all members of the original panel have voted to DENY rehearing. Accordingly,

IT IS ORDERED THAT THE PETITION FOR REHEARING AND REHEARING EN BANC ARE DENIED.

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WISCONSIN

COUNTY MATERIALS CORPORATION,

Plaintiff,

vs.

ALLAN BLOCK CORPORATION,

Defendant.

COMPLAINT

Plaintiff County Materials Corporation, by and through its counsel, Michael Best & Friedrich LLP, complains against Allan Block Corporation as follows:

1. Plaintiff County Materials Corporation ("County") is a Wisconsin Corporation with its principal place of business located at 1111 Menominee Street, Eau Claire, Wisconsin 54702. County is in the business of manufacturing concrete block.

2. Defendant Allan Block Corporation ("Allan") is, on information and belief, a Minnesota corporation with its principal office located at 5300 Edina Industrial Blvd., Suite 100, Edina, Minnesota 55439. Allan is in the business of manufacturing

concrete block.

3. This court has subject matter jurisdiction pursuant to 28 U.S.C. § 1332. County and Allan are citizens of different states and the matter in controversy exceeds the sum or value of $75,000 exclusive of interest and costs.

4. Venue is appropriate in this district pursuant to 28 U.S.C. § 1391(a) because a substantial part of the events giving raise to the claim occurred in this district.

5. On or about April 28, 1993 County's predecessor in interest County Concrete Corporation ("CCC") and Allan entered into a License Agreement ("1993 Agreement") whereby Allan licensed certain patents granted to Allan as patentee to CCC. With Allan's approval, CCC subsequently assigned its interest under the 1993 Agreement to County. A true and correct copy of the 1993 Agreement is attached hereto as Exhibit A.

6. The 1993 Agreement contains paragraph 13.1 which states:

> The parties agree that during the term of this agreement, and for a period of eighteen months following the termination of this agreement, Producer will not directly or indirectly engage in the manufacture and/or sale of any other mortarless, stackable, concrete block retaining wall product

> with the following exceptions: 1) The Versa-lok product line for resale, 2) Manufacture, market and promote the "Wall Block" product currently in production at their facility.

7. This covenant not to compete is unenforceable because it has no proper purpose, is not for the protection of a legitimate interest of Allan, and is injurious to the public.

> [A patentee] may not condition the right to use his patent on the licensee's agreement to purchase, use, or sell or not to purchase, use, or sell another article of commerce not within the scope of his patent monopoly. His right to set the price for a license does not extend so far, whatever privilege he has 'to exact royalties as high as he can negotiate.'

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135-136, 89 S. Ct. 1562; 23 L. Ed. 2d 129 (1969) (citations omitted).

8. County intends to manufacture, distribute, and sell a mortarless, stackable concrete block, which are not the Versa-lok or Wall Block products referenced in paragraph 13.1 of the 1993 Agreement, and which are designed around so as to not infringe any patent of Allan, including but not limited to United States Patent No. 5,484,236.

9. County is entitled to declaratory judgment that the non competition clause contained

within the 1993 Agreement is unenforceable.

WHEREFORE, plaintiff County Materials Corporation demands judgment against defendant Allan Block Corporation as follows:

1. Declaring that the non compete clause in the 1993 Agreement is unenforceable;

2. Awarding plaintiff its reasonable attorneys fees and other expenses of the action; and

3. Awarding such other relief as may be just and equitable.

JURY TRIAL DEMANDED.

Dated this 16th day of November, 2005.

MICHAEL BEST & FRIEDRICH LLP

Attorneys for County Materials Corporation

By:_____
Gary A. Ahrens
John C. Scheller

P.O. ADDRESS:
One South Pinckney Street
P.O. Box 1806
Madison, WI 53701-1806
Phone: 608.257.3501
Fax: 608.283.2275

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WISCONSIN

COUNTY MATERIALS CORPORATION,

Plaintiff,

vs. Case No. 05-C-0675

ALLAN BLOCK CORPORATION,

Defendant.

AMENDED COMPLAINT

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3. This court has subject matter

jurisdiction pursuant to 28 U.S.C. § 1332. County and Allan are citizens of different states and the matter in controversy exceeds the sum or value of $75,000 exclusive of interest and costs.

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> "Wall Block" product currently in production at their facility.

7. This covenant not to compete is unenforceable because it has no proper purpose, is not for the protection of a legitimate interest of Allan, and is injurious to the public.

> [A patentee] may not condition the right to use his patent on the licensee's agreement to purchase, use, or sell or not to purchase, use, or sell another article of commerce not within the scope of his patent monopoly. His right to set the price for a license does not extend so far, whatever privilege he has 'to exact royalties as high as he can negotiate.'

Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135-136, 89 S. Ct. 1562; 23 L. Ed. 2d 129 (1969) (citations omitted).

8. County received a letter from Allan dated April 15, 2005. In that letter, Allan stated that Allan "expect[s County Materials] to honor the non-competition covenants. . . ."

9. County received a letter from Allan dated April 27, 2005. In the letter, Allan stated that "[i]t is our mutual intention to terminate the Wisconsin license. . . ," which County understood to refer to the 1993 agreement entered into between Allan and County's predecessor (and subsequently assigned to County).

10. On or about July 12, County's Dale Laurin received an email from Allan representative Tim Bott. Attached to the email was an Order from the District of Minnesota granting Allan a temporary injunction against another competitor in the landscape block industry.

11. On or shortly after November 9, 2005, County received a letter dated November 9, 2005 from Allan. In the letter, Allan claimed that County was "[c]learly" "in violation" of the 1993 Agreement" and stated "we will place the matter in the hands of our attorneys and pursue resolution through the courts." The letter demanded the cessation of manufacture of the block, which County understood to include any landscape block in violation of the non-compete clause. County understood this letter as an unequivocal threat to initiate litigation relating to any rights that Allan believes that it may have against County.

12. County understood these threats of litigation to be real, and feared that Allan would initiate litigation against County to enforce any and all contract and intellectual property rights that it might have against County. On November 16, 2005, not only was County in receipt of Allan's November 9, 2005 letter threatening litigation, but Allan's representatives had previously informed County of Allan's other litigation against companies with whom Allan had production agreements for producing their own blocks.

13. County has designed a new standard

block that will serve as a comparable landscape product to the market that County had previously served with sales of Allan landscape blocks, particularly the AB Classic and AB Stone product lines.

14. On or about May 2005, County had completed its design work on the new standard block. The new standard block is a mortarless, stackable concrete block retaining wall product. It is not a Versa-lok product for resale and it is not a "Wall Block" product that was in production at County's predecessors' facility in April 1993.

15. County determined the design could be efficiently manufactured for sale through an estimation of the fixed costs that would be necessary to begin large scale production of the block and an analysis of the feasibility of production at County's facilities. This analysis was completed in May of 2005. County had the capabilities to manufacture the new standard block. County has had extensive experience using molds to produce concrete blocks in the past. County could build the necessary molds that would be used in the production of the new standard block. County has significant experience in this regard. On a regular basis, County's manufacturing facilities work on molds to manufacture an array of different types of concrete.

16. County was aware that there was a considerable market for landscape blocks.

17. County was resolved to manufacture

and sell its own line of mortarless, stackable concrete blocks according to the design work developed by May of 2005.

18. Getting from the design of a block to the manufacture of a block for sale is not a complex process. Similar to the manner that an ice cube takes its form by freezing water in an ice cube tray with the tray acting as a mold, a concrete block is formed by use of the molds. The molds are used to "press" the block. Thus, to manufacture the mortarless, stackable concrete block, it is necessary to construct molds that meet the design specifications. These molds, in turn, contain "tooling" to form the proper shape, and this requires the production of tooling to be used in construction of the molds. This work is typically performed by a machine shop by a contractor.

19. From the end of May and through July 2005, County solicited bids on the machining work to have tooling manufactured that would be used by County to construct the new molds according to the product design, and thus give County the ability to manufacture for sale its new line of mortarless, stackable concrete blocks.

20. On July 23, 2005, County received a bid on the work from A.K. Kraussel Tool and Manufacturing Company ("Kraussel"), which County accepted shortly thereafter. Typically, an order for tooling is ready in approximately 6 weeks.

21. The turnaround from receiving the

tooling to creating the molds is not a difficult process and does not take long to complete. Upon receiving the tooling, a single County employee can create a mold in approximately three to four hours, or a half day's work. Once the mold is assembled, concrete blocks can be manufactured. On November 16, 2006, County intended to, and was in a position to, have its new standard block ready for sale by mid-December.

22. On or about December 2, 2005, the tooling work was completed by Kraussel and picked up by County. County then constructed the mold and produced its first prototype of the block on December 7, 2005 at a Milwaukee facility.

23. The landscape products business is a seasonally sensitive market. The vast majority of County's annual sales of concrete block retaining wall products typically occur in the second and third quarters of the year, between the months of April and October.

24. County does not typically pre-market its new landscape products. Unlike the manufacturers of new products such as shoes or beverages, who use retailers to sell their products and depend on advertising to market their products, the vast majority of County's sales are made on a relationship basis. In other words, customers and potential contact sales representatives (or sales representatives contact customers), and the sales representatives will explain to the customer the landscape products that County is offering for sale.

Sales representatives actively market products to customers, and once a new product is ready for sale, sales representatives will be provided such items as temporary marketing materials containing pictures and diagrams of the block. Sales Representatives are then provided access to a price list. These temporary marketing materials are typically supplemented with professional quality brochures once the new product has been on the market for some time, allowing County to use pictures of completed landscaping projects to fully demonstrate a landscape block's use and aesthetics. County intends on selling and marketing its new standard block in this manner.

25. In addition to the standard molds for County's new line of mortarless, stackable concrete blocks, special molds are needed to produce specialized corner blocks. County determined that the construction of the specialized corner molds should be performed by a third-party, and to that end, County solicited bids for the construction of the corner molds in the late summer, early fall of 2005. On or about September 7, County received a bid from Rampfs Molds to construct the corner molds according to design specifications offered by Rampfs Molds. Since that time, County worked with Rampfs Molds to ensure that their proposal met the required design criteria and was in conformity with the standard block design.

26. County intends for the corner molds to be completed by March 2006 and manufactured for sale shortly thereafter.

27. County's new blocks (both standard and non-standard) will serve as a comparable landscape product to the market that County had previously served with sales of Allan landscape blocks, particularly the AB Classic and AB Stone product lines. In other words, County's new blocks will be marketed to and purchased by the same market segment that purchases the AB Classic and AB Stone product lines. The new blocks will compete against those lines. County intends to sell its new blocks at a competitive price to Allan's products.

28. County Materials' sales of the comparable Allan Block products in 2005 were nearly $1 million. County expects sales and profits of its new blocks to be well in excess of $75,000.

29. County intends to manufacture, distribute, and sell a mortarless, stackable concrete block, which are not the Versa-lok or Wall Block products referenced in paragraph 13.1 of the 1993 Agreement, and which are designed around so as to not infringe any patent of Allan, including but not limited to United States Patent No. 5,484,236.

30. As of the time that the original complaint in this action was filed, the manufacture, distribution, and sale of such concrete blocks was imminent. County expects to have its blocks available for sale in time for the 2006 prime selling season for landscape block products.

31. County is entitled to declaratory

judgment that the non-compete clause contained within the 1993 Agreement is unenforceable.

WHEREFORE, plaintiff County Materials Corporation demands judgment against defendant Allan Block Corporation as follows:

1. Declaring that the non-compete clause in the 1993 Agreement is unenforceable;

2. Awarding plaintiff its reasonable attorneys fees and other expenses of the action; and

3. Awarding such other relief as may be just and equitable.

JURY TRIAL DEMANDED.

Dated this 23rd day of January, 2006.

MICHAEL BEST & FRIEDRICH LLP
Attorneys for County Materials Corporation
By: _____
Gary A. Ahrens
John C. Scheller
Kevin M. St. John

P.O. ADDRESS:
One South Pinckney Street
Suite 700
P.O. Box 1806
Madison, WI 53701-1806

EXHIBIT A to Complaint and Amended Complaint

1. **DATE:** April 28, 1993
2. **PARTIES:**

Licensor: Allan Block Corporation
Suite 102
7400 Metro Boulevard
Edina, MN 55439

Producer: County Concrete Corporation
1111 Menomonie Street
P. O. Box 910
Eau Claire, WI 54702-0910

3. **BACKGROUND:**

3.1 Licensor has developed certain technology for the construction of retaining walls based on the use of a proprietary design cement block (the "Block"). Licensor has applied for and been granted patents relating to such technology. Licensor has also developed the technology for certain proprietary molds (the "Molds") to be used in the production of the Block. The Molds, the granted patent, the foregoing technology, and all other unpatented related know-how. trade secrets, processes, designs, technical data: and Inventions,

whether patentable or not, owned or used by Licensor In connection with the Block are referred to as the "Technology."

3.2 Licensor also owns the following trademarks and service marks (the "Marks") used or to be used in connection with the Technology:

ALLAN BLOCK

3.3 Licensor and Producer have entered into this Agreement so that Producer can manufacture the Block at Its facility or facilities located within the area which is outlined in red listed on Exhibit B attached hereto and made a part hereof (the "Territory") and at only the location(s) listed on Exhibit C attached hereto and made a part hereof (the "Plant(s)").

4. LICENSE:

4.1 Licensor hereby grants to Producer a license to use and possess the Molds for the limited purpose of manufacturing the Blocks at the Plant(s) and selling the Blocks, under the Marks, at such price as the Producer deems

appropriate. Producer agrees that it shall have no right to manufacture the Blocks at any location outside the Territory and that it may manufacture the Blocks at locations other than the Plant(s) only with the prior written consent of Licensor.

Producer may, however sell the Blocks either within or outside the Territory.

4.2 This Agreement constitutes a license and not an assignment of any rights in the Molds, the Marks, or any of the Technology relating to the Block, all of which remain the property of Licensor.

4.3 So long as Producer is not In default on any of the provisions of this Agreement, Licensor will not give any other person or entity the right to manufacture the Block within the Territory. Nothing contained herein, however, shall be deemed to prohibit any other person or entity from selling the Block within the Territory.

4.4 Licensor shall provide access to and use of marketing literature, engineering data and other

information relating to the distribution and sale of the Block as such information becomes available.

4.5 All costs associated with Producer's manufacture and sale of the Block, including but not limited' to tooling, and implementation and use of the Molds and the Technology, shall be the sole responsibility of Producer.

5. TERM:

The initial term of this Agreement will be one year from the date set forth in Section 1 and will continue thereafter until terminated as provided herein. In addition to the right to terminate as provided in Section 9, either party shall have the right to terminate this Agreement at the expiration of the one year period or anytime thereafter, with or without cause, by giving at least one-hundred-twenty (120) days prior written notice to the other party of its intent to terminate the Agreement.

6. CONSIDERATION:

6.1 Producer shall obtain the Molds and Mold parts needed to adequately handle the production requirements of their Territory for and under the direction of Licensor at no cost to Licensor.

6.2 Producer shall purchase a minimum of $1,000 worth of marketing material and literature from Licensor during the first year of this Agreement, and a minimum of $1,000 worth of marketing material on an annual basis thereafter.

6.3 In exchange for the license to manufacture and sell the Block in the Territory, Producer shall pay Licensor a Royalty Fee equal to $0.50 for each Block sold by Producer. A Block shall be deemed to have been sold when Producer ships it to a customer.

6.4 Producer shall pay the Royalty Fee to Licensor, without demand, no later than the 15th of each month for Blocks sold during the immediately preceding month for all Blocks sold at any of the Producer's Plants.

Producer agrees that all risk for collection of payment on orders for the Block shall be borne solely by Producer, and any failure to collect or promptly collect payment shall not affect Producer's obligation to pay promptly the Royalty Fee.

6.5 All the time the Royalty Fee is due and payable, Producer shall furnish Licensor with a summary statement of account showing in full the sales of the Block during the previous month by numbers and gross invoice amounts for each customer (and any other information requested by licensor relating to the sales of the Block). The summary statement of account shall be certified by an officer of Producer and the furnishing of any information by Producer shall constitute a certification by the Producer that all of such information is true, correct, and complete. Such reporting and payment obligation shall continue until the last Blocks are sold pursuant to Section 10.3.

7. BOOKS AND RECORDS:

7.1 Producer agrees to keep complete and accurate books and records of all Blocks manufactured and sold (the "Block Books"), and the gross receipts earned therefrom. Licensor or its agents shall have the right to inspect and audit such books and records at any time during Producer's normal business hours, upon at least five (5) days prior written notice.

7.2 Producer shall deliver to Licensor such information reasonably relating to the Block or this Agreement concerning the conditions or operations, financial or otherwise, of Producer as Licensor may from time to time reasonably request.

7.3 If Licensor or Its agents should conduct an audit of Producer's Block Books and such audit shows that any of Producer's statements previously submitted to Licensor contain an error which resulted in a payment to Licensor which was in error by 3% or more of the actual amount due to Licensor, the expense of the audit by Licensor shall be borne by Producer: otherwise Licensor shall bear the expense of the audit.

8. REPRESENTATIONS AND WARRANTIES:

Producer represents, warrants and agrees as follows:

8.1 Producer will comply with any and all laws, regulations, rules, ordinances and permit requirements relating to the manufacture and sale of the Block.

8.2 Producer shall notify Licensor of any significant or consistent complaints received from its customers relating to the quality of the Block or its installation and Producer's response thereto.

8.3 Producer will advertise the Block in such a manner as will protect the proprietary nature of the Technology, the Marks and the Block. In no event shall Producer engage in any deceptive, false or misleading advertising of the Block or its capabilities, or any other matters relating to the Block, the Technology or the Marks.

8.4 Producer, at its expense, shall purchase and keep in force general liability and products liability insurance naming Licensor as a co-insured. Such insurance shall be in such amount and form reasonably required by licensor, provided that such Insurance coverage shall have limits of not less than $2,500,000. Producer shall furnish Licensor with certificates of insurance no less often than annually, and such insurance shall be noncancellable without at least 30 days prior written notice to Licensor.

8.5 Producer acknowledges that it has no property Interest in either the Technology or Molds; and it covenants that It will not lease, sell, transfer, grant a security interest In, mortgage, pledge or hypothecate the Molds or any other related Technology nor, except as otherwise.' provided herein, remove the Molds or .any other related Technology from the Plant(s).

8.6 Producer will implement all necessary programs and policies and take all actions, including those requested by Licensor, to

protect the proprietary nature of the Technology and the Marks, and shall not act in a mann9t that will disparage the Block, the Technology or the Marks, or otherwise detrimentally affect its customers' perceptions thereof.

8.7 Producer shall at all times cooperate to the full extent required by Licensor to meet and comply with Licensor's product control standards as sat forth in Exhibit A. Licensor retains the right to amend Exhibit A from time to time, which amendments shall be binding on Producer as if included therein Initially. Producer shall permit licensor's agents to conduct field checks in the Plant(s) and to enter the same at any time during working hours to inspect the premises, equipment and materials used in manufacturing the Block.

8.8 Producer will use the Technology, including but not limited to the Molds, only for the manufacture of the Block within the Territory and only for the sale of the Block under the Marks.

8.9 Producer shall promptly notify licensor of any improvement, betterment or modification of the Block and/or the Technology of which the Producer Is aware ("Producer's Improvement"). Producer may utilize Producer's Improvement only with the prior written consent of Licensor and at Producer's expense. Licensor shall own the rights to and Licensor may utilize Producer's improvement without any payment to Producer. Licensor shall, in turn, promptly notify Producer of any improvement, betterment or modification of the Block and/or the Technology of which Licensor is aware ("Licensor's Improvement"). Producer may utilize Licensor's Improvement at Producer's expense.

9. EVENTS OF DEFAULT:

9.1 Each of the following shall entitle the nondefaulting party to declare an "Event of Default":

9.1.1 Producer shall fall to make any payment of money required by this Agreement when due, and such failure

is not cured within 10 days thereafter.

9.1.2 Any representation or warranty or any statement of fact made by either party in this Agreement is untrue or is incorrect in any respect when made, or becomes untrue and the party making such representation, warranty or statement falls to notify the other party of the same.

9.1.3 Either party shall fail to keep, observe or perform any other covenant or provision of, or otherwise shall have breached any provision of this Agreement, not relating to the payment of money, but including specifically the standards set forth in Exhibit A, and shall have failed to cure such a default within ten (10) days after notice from the other party.

9.1.4 Upon audit by Licensor, Producer shall be found to have misstated the amount

of any monthly Royalty Fee by 10% or more.

9.1.5 Producer shall file a voluntary petition or an answer seeking reorganization, arrangement, readjustment of its debts or any other relief under any bankruptcy or insolvency act or law of any jurisdiction, now or hereafter existing; or Producer shall take any action indicating its consent to, approval of or acquiescence in any such petition or proceeding.

9.1.6 Producer shall apply for, or otherwise consent to or acquiesce in the appointment of a receiver or trustee for all or a material part of its assets or property.

9.1.7 Producer shall make an assignment for the benefit of creditors.

9.1.8 Producer shall be unable to or shall, in writing, admit

inability to pay its debts as they mature.

9.1.9 Producer shall liquidate, dissolve, merge or consolidate with another entity or voluntarily suspend the conduct of its business for a period of more than 10 working days.

9.1.10 An involuntary petition shall be filed against Producer in bankruptcy or seeking reorganization, arrangement, readjustment of indebtedness or for any other relief under any bankruptcy or insolvency act of law of any jurisdiction now, or hereafter existing.

9.1.11 A receiver or trustee shall be appointed for Producer for all or a material part of its property.

9.1.12 A warrant of attachment, execution or similar process shall remain unsatisfied, undismissed, undischarged or unbounded for a period of sixty (60) days.

9.2 Upon declaration of an Event of Default, the nondefaulting party may, but shall not be obligated to, terminate this Agreement and seek all remedies available to it at law or in equity. Upon such termination by Licensor, all rights granted to Producer by this Agreement shall immediately terminate.

10. PROCEDURES AFTER TERMINATION:

10.1 In the event of any termination of this Agreement, whether pursuant to Section 5 or Section 9 or otherwise, Producer shall: (i) immediately cease to use the Technology, including the Molds; (ii) immediately return all Technology, including specifically the Molds, to Licensor in as good a condition as when delivered to Producer (reasonable wear and tear excepted); and (iii) immediately cease manufacture of the Block. Any termination of this Agreement shall be without prejudice to any monies due or to become due to Licensor under this Agreement, and without prejudice to any other rights of Licensor.

10.2 In case of any default by Producer as specified herein. Producer shall pay all of Licensor's costs of collecting any sums due to Licensor, including reasonable attorney's fees, and the lesser of 15% or the maximum interest rate or rates charged permitted by law.

10.3 Except as otherwise provided in Section 11.1, upon any termination of this Agreement, Producer shall have the right to sell inventory of Blocks that were completely manufactured prior to termination. In connection with the sale of such completed Blocks, all of the terms and conditions of this Agreement shall survive and apply.

11. PATENT OF TRADEMARK INFRINGEMENT:

11.1 Licensor shall defend all infringement suits that may be brought against either party on account of the manufacture, use or sale of the Block: and in the event a final judgment is entered against Producer or Licensor as a result of such infringement suit, after expiration of all time periods to appeal therefrom, either party

may terminate this Agreement on 10 days written notice, in which event Producer shall immediately cease all sales of the Block and neither party shall have any claim for damages or otherwise against the other.

11.2 Producer shall promptly notify licensor of any suspected acts of infringement, unfair competition or passing off which may occur in relation to the Technology or the Marks and Licensor shall, in its sole discretion, determine whether or not it is desirable to institute suit. In any suit which may be instituted, Producer may be joined as a party plaintiff. In such event, Producer shall not be chargeable for any costs or expenses without its written consent. Producer shall, however, execute all papers necessary or desirable and shall testify when requested to do so.

12. CONFIDENTIALITY:

12.1 For purposes of this Agreement, the term "Confidential Information" shall mean all information which licensor provides to Producer in written or other tangible form, marked as

"Confidential," including any matters relating to the Technology, and all oral disclosures that Licensor indicates at the time of the oral disclosure are confidential.

12.2 Producer agrees not to make any use of the Confidential Information or any Technology other than in connection with the manufacture and sale of the Block as permitted by this Agreement. Producer shall not disclose the Confidential Information to anyone, except such employees of Producer having a need to know in connection with the Producer's manufacture and sale of the Block. Producer covenants that it will take all necessary actions to make sure that its employees hold the Confidential Information in confidence consistent with the terms of this Agreement.

13. NONCOMPETITION:

13.1 The parties agree that during the term of this agreement, and for a period of eighteen months following the termination of this agreement, Producer will not directly or Indirectly engage in

the manufacture and/or sale of any other mortarless, stackable, concrete block retaining wall product, with. the following exeptions: 1) The Versa-10k product line for resale, ~~but shall not engage in marketing, promotion or general sales of the same,~~ 2) Manufacture, market and promote the "Wall Block" product currently In production at their facility.

13.2 The parties intend that this covenant not to compete shall be construed as a series of separate covenants, one for each county, state and/or geographical area where the Block is being sold. If in any Judicial proceeding a court shall refuse to enforce any of the separate covenants deemed included in this Section, then the unenforceable covenant(s) shall be deemed eliminated to the extent necessary to permit the remaining separate covenants to be enforced.

14. INDEMNIFICATION:

Except as provided in Section 11.1, Licensor and Producer hereby agree to indemnify and hold the other harmless from all claims, damages, liabilities and

costs (including reasonable attorney's and/or accountant's fees or expenses) resulting from its breach of this Agreement.

15. UNIQUENESS OF SUBJECT MATTER:

Producer acknowledges and agrees that, because of the unique nature of the Technology, the Marks, the Confidential Information, and any other matters relating to the rights granted to Producer under this Agreement, Licensor shall be entitled to any and all appropriate equitable relief, whether or not an adequate remedy at law may be deemed to be available, in order to prevent a breach of this Agreement or to enforce the provisions hereof.

16. GENERAL TERMS:

16.1 Neither this Agreement nor any interest herein may be assigned, in whole or in part, by Producer without the prior written consent of Licensor, which consent may be withheld in the sale discretion of Licensor.

16.2 All notices and communications provided for hereunder shall be in writing and shall be mailed and delivered to the business address

of the respective parties as listed in Section 2 above, or to such other address as either party shall designate in writing to the other. All such notices and communications shall be deemed to have been received on the earlier of the date of delivery thereof or on the third business day after mailing thereof.

16.3 This Agreement constitutes the entire Agreement between Producer and Licensor and supersedes all prior agreements, understandings and arrangements, oral and written, between the parties with respect to the subject matter of this Agreement.

16.4 The headings in this Agreement are intended solely for convenience of reference and should be given no effect on the construction or interpretation of this Agreement.

16.5 Nothing in this Agreement is intended to or shall establish any agency, partnership, or joint venture relationship between the parties hereto; or, except as otherwise specifically provided,

confer on any person other than the parties, or their authorized assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

16.6 No license or right, by implication or otherwise, is granted by either party to the other under any patent, certificate or information, or with respect to any trade mark, service mark, product or activity except as expressly set forth in this Agreement.

16.7 No waiver of any right under this Agreement shall be deemed effective unless the same is set forth in a writing signed by the parties giving such waiver, and no waiver of any right shall be deemed to be a waiver of any such right, or any other right hereunder, in the future.

16.8 In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect in any jurisdiction, the validity, legality and enforceability of the remaining provisions contained herein shall

not in any way be otherwise affective or impaired thereby.

16.9 All representations, warranties, agreements and indemnities set forth in or made pursuant to this Agreement shall survive the date hereof.

16.10 Whenever so indicated by the context, the use herein of any gender shall include all genders in any number, singular or plural.

16.11 This Agreement shall be interpreted under and governed by the laws of the State of Minnesota.

16.12 Producer shall perform such further acts and execute and deliver such documents, including but not limited to UCC financing statements, as may be requested by Licensor to effectuate the understandings and agreement set forth herein.

IN WITNESS WHEREOF the parties hereto have executed this agreement on the day and year first written above.

LICENSOR:

ALLAN BLOCK CORPORATION

By: _____
Robert A. Gravier
Its President

PRODUCER:

County Concrete Corporation

By: _____
Its General Manager

EXHIBIT A

EXHIBIT A

Product Control Standards:

Producer shall follow accepted industry standards for general quality control. Blocks shall be uniform in size, shape, and character.

Blocks shall be free from cracks or chips (excluding occasional minor breakage due to cubing, shipping and handling). In particular, the front interlocking clip on each Block shall be molded as an Integral part of the Block, with full bonding accomplished during manufacturing. The front interlocking clips shall be solid and crack free as they are produced and shipped.

Concrete Block Design shall conform to a minimum net area compressive strength of 3,00 p.s.i. minimum.

Absorption -- 6% ± 1% for 3/8" aggregates.

EXHIBIT B

THE TERRITORY

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

COUNTY MATERIALS CORPORATION,

Plaintiff,

Civil Case No. 05 C 0675-S

v.

ANSWER TO AMENDED COMPLAINT

ALLAN BLOCK CORPORATION,

Defendant

Defendant Allan Block Corporation ("Allan Block"), for its Answer to Plaintiff County Materials Corporation's ("County Materials") Amended Complaint, states as follows:

Except as specifically admitted, qualified, or otherwise answered herein, Allan Block denies each allegation in the Amended Complaint.

1. Allan Block admits, on information and belief, the allegations in Paragraph 1 of the Amended Complaint.

2. Allan Block admits the allegations in Paragraph 2 of the Amended Complaint, but further alleges that, in addition to manufacturing, Allan

Block is in the business of developing, marketing, and licensing technology for the manufacture of concrete blocks.

3. Allan Block denies the allegations in Paragraph 3 of the Amended Complaint.

4. Allan Block denies the allegations in Paragraph 4 of the Amended Complaint. Specifically, Allan Block denies that any events have occurred giving rise to a claim.

5. In response to the allegations in Paragraph 5 of the Amended Complaint, Allan Block admits that it entered into a license agreement with County Materials' predecessor, and that Allan Block subsequently approved the assignment of the agreement to County Materials. Allan Block admits that the document attached as Exhibit A is the agreement in question.

6. In response to the allegations in Paragraph 6 of the Amended Complaint, Allan Block states that Exhibit A to the Complaint speaks for itself.

7. Allan Block denies the factual allegations in Paragraph 7 of the Amended Complaint. The remaining allegations in Paragraph 7 constitute legal argument to which no responsive pleading is required.

8. In response to the allegations in Paragraph 8 of the Amended Complaint, Allan Block

admits that County Materials received a letter from Allan Block in or about April 15, 2005, and further states that the document speaks for itself.

9. In response to the allegations in Paragraph 9 of the Amended Complaint, Allan Block admits that County Materials received a letter from Allan Block on or about April 27, 2005, and further states that the document speaks for itself. Allan Block lacks information sufficient to form a belief as to the truth or falsity of the remaining allegations in Paragraph 9 of the Amended Complaint, and on that basis denies the same.

10. Allan Block admits the allegations in Paragraph 10 of the Amended Complaint.

11. In response to the allegations in Paragraph 11 of the Amended Complaint, Allan Block admits that it sent County Materials a letter dated November 9, 2005, and further states that the document speaks for itself. Allan Block lacks information sufficient to form a belief as to the truth or falsity of the remaining allegations in Paragraph 11 of the Amended Complaint -- concerning County Materials' "understanding" -- and on that basis denies the same. Allan Block specifically denies the implication that the November 9, 2005 letter constituted a threat to sue County Materials under the non-compete clause.

12. In response to the allegations in Paragraph 12 of the Amended Complaint, Allan Block admits that Allan Block's representatives had

informed County Materials of Allan Block's litigation against another company. Allan Block lacks information sufficient to form a belief as to the truth or falsity of the remaining allegations - concerning County Materials' "understanding" or "fears" - in Paragraph 12 of the Amended Complaint, and on that basis denies the same.

13. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 13 of the Amended Complaint, and on that basis denies the same.

14. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 14 of the Amended Complaint, and on that basis denies the same.

15. In response to the allegations in Paragraph 15 of the Amended Complaint, Allan Block admits that County Materials has had experience using molds to produce concrete blocks. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations remaining contained in Paragraph 15 of the Amended Complaint, and on that basis denies the same.

16. Allan Block admits the allegations in Paragraph 16 of the Amended Complaint.

17. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 17 of the Amended Complaint, and on that basis denies the same.

18. Allan Block admits that Molds and tooling are used to manufacture block products. Allan Block denied that getting from the design of a block to the manufacture of a block for sale is not a complex process.

19. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 19 of the Amended Complaint, and on that basis denies the same.

20. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 20 of the Amended Complaint, and on that basis denies the same.

21. The allegation in Paragraph 21 are vague with regard to "difficult" and "Long to complete," and therefore Allan Block can neither admit or deny as alleged, and therefore deny the same. Allan Block admits that once a mold is assembled it can be used to manufacture concrete blocks if all the other manufacturing equipment and properly-trained personnel are available. Allan Block is without information sufficient to form a belief as to the truth or falsity of the remaining

allegations regarding County Material's capabilities and intentions contained in Paragraph 21 of the Amended Complaint, and on that basis denies the same.

22. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 22 of the Amended Complaint, and on that basis denies the same.

23. Allan Block admits the allegations in Paragraph 23 of the Amended Complaint.

24. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 24 of the Amended Complaint, and on that basis denies the same.

25. Allan Block admits that different molds are used to produce segmental retaining wall corner blocks. Allan Block is without information sufficient to form a belief as to the truth or falsity of the remaining allegations contained in Paragraph 25 of the Amended Complaint, and on that basis denies the same.

26. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 26 of the Amended Complaint, and on that basis denies the same.

27. Allan Block admits that, to the extent County Materials manufactures and sells segmental retaining wall blocks similar to the Allan Block designs, they will compete against Allan Block's designs. Allan Block is without information sufficient to form a belief as to the truth or falsity of the remaining allegations contained in Paragraph 27 of the Amended Complaint, and on that basis denies the same.

28. In response to the allegations contained in Paragraph 28 of the Amended Complaint, Allan Block admits that County Materials sold nearly $1 million in Allan Block products in 2005. Allan Block is without information sufficient to form a belief as to the truth or falsity of the remaining allegations contained in Paragraph 28 of the Amended Complaint, and on that basis denies the same.

29. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 29 of the Amended Complaint, and on that basis denies the same.

30. Allan Block is without information sufficient to form a belief as to the truth or falsity of the allegations contained in Paragraph 30 of the Amended Complaint, and on that basis denies the same.

31. Allan Block denies the allegation contained in Paragraph 31 of the Amended Complaint.

SEPARATE DEFENSES

1. County Materials failed to state a claim upon which relief can be granted.

2. This Court lacks subject matter jurisdiction over this matter, because County Materials cannot establish the existence of a case or controversy, and because County Materials cannot establish the jurisdictional amount set forth in 28 U.S.C. § 1332(a).

3. County Materials is barred from obtaining relief because of its own prior breach of the agreement.

4. County Materials is barred from obtaining relief because of its own inequitable conduct.

WHEREFORE, Allan Block denies that County Materials is entitled to any relief prayed for in the Complaint, and Allan Block prays that judgment be entered dismissing County Materials' Complaint with prejudice, and awarding such other relief as the Court deems just and equitable.

Dated this 13th day of February, 2006.

GREGORY T. EVERTS
State Bar No. 1001636
JOSEPHINE K. BENKERS
State Bar No. 1030608

EMILY M. FEINSTEIN
State Bar No.1037924
ANUPAM BHATHEJA
State Bar No. 1047192

QUARLES & BRADY LLP
U.S. Bank Plaza
P.O. Box 2113
Madison, WI 53701
608.251.5000
Attorneys for Defendant
Allan Block Corporation

OF COUNSEL:
Kurt B. Niederluecke (MN ID #0271597)
James R. Mayer (MN ID #312241)
FREDRIKSON & BYRON, P.A.
4000 Pillsbury Center
200 South Sixth Street
Minneapolis, MN 55402
Phone: 612.492.7000
Facsimile: 612.492.7077

ARTICLE III

Section. 1. The judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish. The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.

Section. 2. The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority; - to all Cases affecting Ambassadors, other public Ministers and Consuls; - to all Cases of admiralty and maritime Jurisdiction; - to Controversies to which the United States shall be a Party; - to Controversies between two or more States; - between a State and Citizens of another State; - between citizens of different States; - between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.[1]

In all Cases affecting Ambassadors, other public Ministers and Consuls, and those in which a State shall be Party, the supreme Court shall have original Jurisdiction. In all the other Cases before

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[1] This section has been affected by the Eleventh Amendment.

mentioned, the supreme Court shall have appellate Jurisdiction, both as to Law and Fact, with such Exceptions, and under such Regulations as the Congress shall make.

The Trial of all Crimes, except in Cases of Impeachment, shall be by Jury; and such Trial shall be held in the State where the said Crimes shall have been committed; but when not committed within any State, the Trial shall be at such Place or Places as the Congress may by Law have directed.

Section. 3. Treason against the United States, shall consist only in levying War against them, or in adhering to their Enemies, giving them Aid and Comfort. No Person shall be convicted of Treason unless on the Testimony of two Witnesses to the same overt Act, or on Confession in open Court.

The Congress shall have Power to declare the Punishment of Treason, but no Attainder of Treason shall work Corruption of Blood, or Forfeiture except during the Life of the Person attainted.

28 U.S.C. § 1332. Diversity of citizenship; amount in controversy; costs

(a) The district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of $75,000, exclusive of interest and costs, and is between –

(1) citizens of different States;

(2) citizens of a State and citizens or subjects of a foreign state;

(3) citizens of different States and in which citizens or subjects of a foreign state are additional parties; and

(4) a foreign state, defined in section 1603(a) of this title, as plaintiff and citizens of a State or of different States.

For the purposes of this section, section 1335, and section 1441, an alien admitted to the United States for permanent residence shall be deemed a citizen of the State in which such alien is domiciled.

(b) Except when express provision therefore is otherwise made in a statute of the United States, where the plaintiff who files the case originally in the Federal courts is finally adjudged to be entitled to recover less than the sum or value of $75,000, computed without regard to any setoff or counterclaim to which the defendant may be adjudged to be entitled, and exclusive of interest and

costs, the district court may deny costs to the plaintiff and, in addition, may impose costs on the plaintiff.

(c) For the purposes of this section and section 1441 of this title –

(1) a corporation shall be deemed to be a citizen of any State by which it has been incorporated and of the State where it has its principal place of business, except that in any direct action against the insurer of a policy or contract of liability insurance, whether incorporated or unincorporated, to which action the insured is not joined as a party-defendant, such insurer shall be deemed a citizen of the State of which the insured is a citizen , as well as of any State by which the insurer has been incorporated and of the State where it has its principal place of business; and

(2) the legal representative of the estate of a decedent shall be deemed to be a citizen only of the same State as the decedent, and the legal representative of an infant or incompetent shall be deemed to be a citizen only of the same State as the infant or incompetent.

28 U.S.C. § 1391. Venue generally

(a) A civil action wherein jurisdiction is founded only on diversity of citizenship may, except as otherwise provided by law, be brought only in (1) a judicial district where any defendant resides, if all defendants reside in the same State, (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated, or (3) a judicial district in which any defendant is subject to personal jurisdiction at the time the action is commenced, if there is no district in which the action may otherwise be brought.

(b) A civil action wherein jurisdiction is not founded solely on diversity of citizenship may, except as otherwise provided by law, be brought only in (1) a judicial district where any defendant resides, if all defendants reside in the same State, (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated, or (3) a judicial district in which any defendant may be found, if there is no district in which the action may otherwise be brought.

(c) For purposes of venue under this chapter, a defendant that is a corporation shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced. In a State which has more than one judicial district and in which a defendant that is a

corporation is subject to personal jurisdiction at the time an action is commenced, such corporation shall be deemed to reside in any district in that State within which its contacts would be sufficient to subject it to personal jurisdiction if that district were a separate State, and, if there is no such district, the corporation shall be deemed to reside in the district within which it has the most significant contacts.

(d) An alien may be sued in any district.

(e) A civil action in which a defendant is an officer or employee of the United States or any agency thereof acting in his official capacity or under color of legal authority, or an agency of the United States, or the United States, may, except as otherwise provided by law, be brought in any judicial district in which (1)a defendant in the action resides, (2) a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated, or (3) the plaintiff resides if no real property is involved in the action. Additional persons may be joined as parties to any such action in accordance with the Federal Rules of Civil Procedure and with such other venue requirements as would be applicable if the United States or one of its officers, employees, or agencies were not a party.

The summons and complaint in such an action shall be served as provided by the Federal Rules of Civil Procedure except that the delivery of the summons and complaint to the officer or agency as required by the rules may be made by certified mail

beyond the territorial limits of the district in which the action is brought.

(f) A civil action against a foreign state as defined in section 1603(a) of this title may be brought –

(1) in any judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated;

(2) in any judicial district in which the vessel or cargo of a foreign state is situated, if the claim is asserted under section 1605(b) of this title;

(3) in any judicial district in which the agency or instrumentality is licensed to do business or is doing business, if the action is brought against an agency or instrumentality of a foreign state as defined in section 1603(b) of this title; or

(4) in the United States District Court for the District of Columbia if the action is brought against a foreign state or political subdivision thereof.

(g) A civil action in which jurisdiction of the district court is based upon section 1369 of this title may be brought in any district in which any

defendant resides or in which a substantial part of the accident giving rise to the action took place.

28 U.S.C. § 2201. Creation of remedy

(a) In a case of actual controversy within its jurisdiction, except with respect to Federal taxes other than actions brought under section 7428 of the Internal Revenue Code of 1986, a proceeding under section 505, or 1146 of title 11, or in any civil action involving an antidumping or countervailing duty proceeding regarding a class or kind of merchandise of a free trade area country (as defined in section 516A(f)(10) of the Tariff Act of 1930), as determined by the administering authority, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

(b) For limitations on actions brought with respect to drug patents see section 505 or 512 of the Federal Food, Drug, and Cosmetic Act.

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No. 07-959

FILED
FEB 21 2008
OFFICE OF THE CLERK
SUPREME COURT, U.S.

In the Supreme Court of the United States

COUNTY MATERIALS CORPORATION,
Petitioner,

v.

ALLAN BLOCK CORPORATION,
Respondent.

On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Seventh Circuit

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

DARREN B. SCHWIEBERT
Counsel of Record
KURT J. NIEDERLUECKE
LAURIE J. MILLER
FREDRIKSON & BYRON, P.A.
200 South Sixth Street
Suite 4000
Minneapolis, MN 55402
(612) 492-7000

Attorneys for Respondent

2008 – Bachman Legal Printing ■ (612) 339-9518 ■ 1-800-715-3582 ■ Fax (612) 337-8053

COUNTER-STATEMENT OF QUESTION PRESENTED FOR REVIEW

Whether, in affirming the validity of a non-competition agreement under Minnesota state law and federal patent policy, the Seventh Circuit correctly applied a rule of reason analysis and required the Petitioner to establish anti-competitive harm where the Petitioner based its claim of illegality solely on the alleged anti-competitive effect of the agreement.

CORPORATE DISCLOSURE STATEMENT

Allan Block Corporation is a privately held corporation. No publicly held entity owns 10% or more of its stock.

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RESPONDENT'S BRIEF IN OPPOSITION

Respondent Allan Block Corporation ("Allan Block") requests that the Court deny the Petition of County Materials Corporation ("County Materials") for a Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit.[1]

STATUTORY PROVISIONS INVOLVED

35 U.S.C. § 271, the statutory basis for patent misuse, provides in pertinent part:

> (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a

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[1] The cover of the Petition incorrectly identifies the Petition as a Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit.

license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

STATEMENT

A. THE CONTRACT AT ISSUE

On April 28, 1993, County Concrete Corporation, Petitioner's predecessor in interest ("County Materials"), entered into a Production Agreement with Allan Block. (Pet. App. A22; A67 – A92). The Production Agreement granted County Materials the exclusive right to manufacture Allan Block concrete retaining wall blocks in its designated territory in northwest Wisconsin and sell those blocks under Allan Block's trademarks. (Pet. App. A22; A68 – A69; A92).

Allan Block agreed under the Production Agreement to provide County Materials with the technology necessary to produce the Allan Block concrete retaining wall blocks and sell them under Allan Block's trademarks. (Pet. App. A22; A68 – A69). In fact, throughout the twelve year life of the Production Agreement, Allan Block provided extensive technical, engineering, and marketing assistance to County Materials for the manufacture and sale of Allan Block concrete retaining wall blocks under Allan Block's trademarks. (Pet. App. A26 – A27). Included in the license to technology provided

to County Materials for production of Allan Block concrete retaining wall blocks was a license to Allan Block's patents on Allan Block's products. (Pet. App. A67 – A69).

In exchange for the technology and its exclusive right to manufacture Allan Block concrete retaining wall blocks in its northwest Wisconsin territory, County Materials agreed to make royalty payments on each Allan Block product it sold. (Pet. App. A71). County Materials also agreed during the term of the Production Agreement and for eighteen (18) months afterwards not to compete with Allan Block as follows:

> 13. **NONCOMPETITION**
>
> 13.1 The parties agree that during the term of this agreement, and for a period of eighteen months following the termination of this agreement, Producer [County Materials] will not directly or indirectly engage in the manufacture and/or sale of any other mortarless, stackable, concrete block retaining wall product, with the following exceptions: 1) The Versa-Lok product line for resale; 2) manufacture, market and promote the "Wall Block" product currently in production at their facility.

(Pet. App. A84 – A85). The parties specifically negotiated this provision to render it reasonable and acceptable to both parties. (Pet. App. A25 – A26).

Finally, the Production Agreement specifies that it shall be "interpreted under and governed by the laws of the State of Minnesota." (Pet. App. A89).

B. ALLEGATIONS AND PROCEEDINGS BELOW

County Materials brought suit on November 16, 2005 seeking a declaratory judgment that the non-competition provision of the 1993 Production Agreement is unenforceable. (Pet. App. A53 – A56).

The district court, in its opinion dated May 12, 2006, considered the motions for summary judgment filed by both parties regarding the validity of the non-competition provision. (Pet. App. A21 – A51). The district court held that the non-competition provision: (1) did not constitute patent misuse; (2) did not result from leverage by Allan Block's patents; and (3) did not unlawfully restrain competition. (Pet. App. A40 – A42). In addition, the district court held that the non-competition provision was valid and enforceable under Minnesota state law as protecting legitimate interests, reasonable as between the parties, and not injurious to the public. (Pet. App. A44 – A50). Accordingly, it entered summary judgment dismissing County Materials' complaint. (Pet. App. A51).

The Seventh Circuit affirmed the summary judgment in Allan Block's favor on September 18, 2007. The unanimous panel affirmed the decision of the district court that the non-competition provision was valid under Minnesota state law. (Pet. App. A13

– A17). The unanimous panel also affirmed the validity of the non-competition provision as not constituting patent misuse or having anti-competitive effects. (Pet. App. A6 – A12).

On October 2, 2007, County Materials petitioned the Seventh Circuit for a rehearing with a suggestion for rehearing *en banc*. County Materials argued that the panel's decision conflicted with the Seventh Circuit's prior decision in *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014 (7th Cir. 2002). County Materials' petition for rehearing and its suggestion for rehearing *en banc* were denied on October 22, 2007. (Pet. App. A52).

REASONS FOR DENYING THE PETITION

County Materials' petition rests entirely on the assumption that the Seventh Circuit announced a rule of law that, quite simply, the court did not invoke. This is a diversity jurisdiction case. The decision below was a routine, straightforward application of Minnesota state law to determine whether the non-competition provision of a production agreement was valid and enforceable. Because County Materials alleged that the provision was illegal for anti-competitive reasons, the Seventh Circuit required County Materials to present some evidence of the basis for the alleged illegality. The Seventh Circuit did not hold that evidence of anti-competitive effect was required in every case alleging illegality of contract, but simply held County Materials to its burden of establishing the defense it pleaded.

The decision below does not conflict with any decision of this Court. Nor is there an intercircuit conflict warranting review. County Materials' petition argues, at most, that the Seventh Circuit failed to follow its own precedent. The absence of any intra-circuit conflict was confirmed when the Seventh Circuit was presented with the opportunity to review the case *en banc* and declined.

ARGUMENT

I. THE QUESTION PRESENTED DOES NOT WARRANT REVIEW.

A. County Materials failed to establish "compelling reasons" for review of the Seventh Circuit's decision, and thus, to satisfy Supreme Court Rule 10. The Seventh Circuit's decision is not in conflict with the decision of another United States court of appeals on the same important matter. Rule 10(a). None of the cases cited by County Materials from other circuits involves alleged illegality based upon patent misuse or anti-competitive activity. (Pet. at 17). Rather, County Materials' argues that the decision below is inconsistent with the Seventh Circuit's own decision in *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014 (7th Cir. 2002). (Pet. at 5). County Materials' argument is both incorrect and insufficient to justify review. Moreover, the Seventh Circuit was presented with the opportunity to review the decision *en banc* based on the same allegation of an intra-circuit conflict, and declined. (Pet. App. A52).

The Seventh Circuit also did not decide an important question of federal law that has not been, but should be, settled by this Court, or that conflicts with relevant decisions of this Court. Rule 10(c). This is a diversity jurisdiction case as pled in County Materials' complaint. (Pet. App. A54). The contract at issue is governed by Minnesota state law. (Pet. App. A89). Moreover, County Materials has not identified any decisions of this Court that conflict with the decision below.

B. The Seventh Circuit properly applied a rule of reason analysis and required a showing of competitive harm where the alleged illegality of the non-competition provision was based solely upon alleged anti-competitive activity. The Seventh Circuit properly rejected County Materials' assertion that any contract that contains both a license to a patent and a non-competition provision is per se illegal. (Pet. App. A6). The Seventh Circuit held that because County Materials does not claim that Allan Block is trying to extend the term of any patent or expand the scope of the patent by the non-competition provision, a per se analysis was inappropriate. (Pet. App. A6-A7) (*citing* Brulotte *v. Thys Co.*, 379 U.S. 29, 32 (1964)). County Materials does not dispute this conclusion by the Seventh Circuit in its petition, but nonetheless implicitly asks this Court to apply a per se standard to invalidate the non-competition provision solely because the Production Agreement included a license to patented technology.

The complaint alleges that the illegality is based upon competitive harm, as set forth in paragraph 7:

> This covenant not to compete is unenforceable because it has no proper purpose, is not for the protection of legitimate interest of Allan, and is injurious to the public.
>
> > [A patentee] may not condition the right to use his patent on the licensee's agreement to purchase, use, or sell or not to purchase, use, or sell another article of commerce not within the scope of his patent monopoly. His right to set the price for a license does not extend so far, whatever privilege he has 'to extract royalties as high as he can negotiate.'
>
> *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135-136, 89 S. Ct. 1562, 23 L. Ed. 2d 129 (1969) (citations omitted).

(Pet. App. A55). The Amended Complaint contains identical language. (Pet. App. A59).

Therefore, in applying a rule of reason analysis to the alleged illegality of the non-competition provision, the Seventh Circuit required County Materials to establish anti-competitive effects to substantiate the allegations in the complaint. (Pet. App. A10). County Materials failed to present any such evidence and simply argued that anti-competitive leverage is presumed because the contract contained a patent license. (Pet. App. A8). The Seventh Circuit properly rejected a patent-based

presumption of anti-competitive effects, based upon this Court's decisions in *Brulotte*, 379 U.S. at 33, *Ill. Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006), and *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979). (Pet. App. A8). County Materials' petition is silent on the Seventh Circuit's application of these cases.

The Seventh Circuit analyzed the evidence regarding the specifics of the contract at hand and held that there was no proof of any anti-competitive effect. The Seventh Circuit properly concluded that:

> Nothing in these facts suggest that Allan Block needed or used any kind of leverage made possible by the patent to secure County Materials's promise to refrain from working with all but the designated two competing products, or its promise to refrain from using other products for 18 months after expiration of the Agreement.

(Pet. App. A11 – A12).[2]

The Seventh Circuit held that the contract "showed no sign of one-sidedness or abuse of power on Allan Block's part." (Pet. App. A11). In fact, the Seventh Circuit noted that without the non-competition provision, Allan Block would have received little, if any, consideration for the use of its

---

[2] As noted by the Seventh Circuit, the non-competition provision was not onerous and, in fact, allowed County Materials to continue to manufacture and sell two competing products, and had both temporal and geographic limits. (Pet. App. A12).

technology. (Pet. App. A11) ("If County Materials had been free to pick and choose among all potentially competing products on the market, Allan Block may have signed over the rights to use its patent and know-how for little or nothing in return.").

Finally, Country Materials engages in a semantic game about patent misuse as a defense as opposed to a basis for alleging invalidity. 35 U.S.C. § 271(d). There is nothing illegal about having a contract involving patents unless it constitutes patent misuse. There is nothing illegal about an anti-competitive agreement unless it violates antitrust law. Under either analysis, the Seventh Circuit properly held that evidence of anti-competitive effects were necessary. (Pet. App. A10 – A11).

C. The Seventh Circuit's decision was consistent with its prior decision in *Scheiber*. *Scheiber* involved a licensing agreement extending royalty payments beyond the life of the existing patents. In *Scheiber,* Judge Posner explained the distinction between the *Brulotte* and *Aronson* holdings :

> The [*Aronson*] Court emphasized that *Brulotte* had been based on the "leverage" that the patent had granted the patentee to extract royalties beyond the date of expiration . . . and that leverage was of course missing in *Aronson*.

Scheiber, 293 F.3d at 1019.

The non-competition provision in this case did not extent royalty payments beyond the life of the patents. Moreover, it did not involve leverage based upon the patents. On this basis, the Seventh Circuit properly applied its own precedent in *Scheiber*. (Pet. App. A8).

D. This case does not justify the creation of new patent law that any contract containing a patent license cannot also contain a non-competition provision. The Seventh Circuit did not hold that evidence of anti-competitive effect was required in every case alleging illegality of contract. County Materials seeks review of this case for the purpose of creating new patent law that any contract that includes both a patent license and a non-competition provision is per se invalid. Congress has already established the proper analysis of this issue in 35 U.S.C. § 271(d). Review by this Court is unnecessary.

CONCLUSION

For the foregoing reasons, the writ of certiorari should be denied.

Respectfully submitted,

DARREN B, SCHWIEBERT
Counsel of Record
KURT J. NIEDERLUECKE
LAURIE J. MILLER
FREDRIKSON & BYRON, P.A.
200 South Sixth Street
Suite 4000
Minneapolis, MN 55402
(612) 492-7000

ATTORNEYS FOR RESPONDENT ALLAN BLOCK CORPORATION